92-2270

A	ASTRO-MED INC	10Q	04-30-92
B	BERRY AND BOYLE CLUSTER HOUSING PROPERTIES	10Q	06-30-92
C	CENTRAL FIDELITY BANKS INC	10Q	06-30-92
D	CONCORDE CAREER COLLEGES INC	10Q	03-31-92
E	EPOLIN INC	10Q	11-30-91
F	FIDELITY SAVINGS BANK PASA	10Q	06-30-92
G	FORD BANK GROUP INC	10Q	03-31-92
H	GENERAL AMERICAN TRANSPORTATION CORP	10Q	06-30-92
I	INTEGRAL SYSTEMS INC	10Q	06-30-92
J	KIRSCHNER MEDICAL CORP	10Q	03-31-92
K	L.A. ENTERTAINMENT INC	10Q	12-31-91
L	LESCO INC	10Q	03-31-92
M	PANCHO'S MEXICAN BUFFET INC	10Q	06-30-92
N	ROYAL INTERNATIONAL OPTICAL INC	10Q	12-31-91
O	SOVEREIGN BANCORP INC	10Q	06-30-92
P	TSI INC (MN)	10Q	06-30-92
Q	VARI-CARE INC	10Q	06-30-92
R	WESTWIND GROUP INC	10Q	02-29-92

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 2, 1992

OR

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

BEST COPY AVAILABLE

Commission file number 0-13200

Astro-Med, Inc. /AEW
(Exact name of registrant as specified in its charter)

Rhode Island	05-0318215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

600 East Greenwich Avenue, West Warwick, Rhode Island 02893
(Address of principal executive offices) (Zip Code)

(401) 828-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X . No ___.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.05 Par Value - 4,888,901 shares (excluding treasury shares) as of May 29, 1992

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ASTRO-MED, INC.

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Part I. FINANCIAL INFORMATION

ASTRO-MED, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 1992	May 2, 1992 (Unaudited)
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,030,787	$ 1,528,620
Marketable Securities	12,685,493	12,483,006
Accounts Receivable, Net	5,808,290	5,460,097
Inventories	5,012,890	5,142,490
Prepaid Expenses and Other Current Assets.	690,459	658,354
Total Current Assets	26,227,919	25,272,567
PROPERTY, PLANT AND EQUIPMENT	12,622,178	13,324,789
Less Accumulated Depreciation	4,939,230	5,185,850
	7,682,948	8,138,939
OTHER ASSETS		
Excess of Cost Over Net Assets Acquired	1,152,374	1,143,295
Other	680,159	676,256
	1,832,533	1,819,551
	$35,743,400	$35,231,057

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31, 1992	May 2, 1992 (Unaudited)
CURRENT LIABILITIES		
Accounts Payable	$ 1,477,400	$ 1,407,112
Accrued Compensation	799,677	795,998
Accrued Expenses	981,162	853,956
Income Taxes	1,862,952	776,977
Current Maturities of Long-Term Debt	351,703	351,703
Total Current Liabilities	5,472,894	4,185,746
LONG-TERM DEBT, Less Current Maturities	999,180	899,180
DEFERRED INCOME TAXES	1,113,104	1,122,104
STOCKHOLDERS' EQUITY		
Preferred Stock, $10 Par Value, Authorized 100,000 Shares, None Issued		
Common Stock, $.05 Par Value, Authorized 6,000,000 Shares, Issued 3,330,286 and 5,029,734 Shares, Respectively	166,514	251,487
Additional Paid-In Capital	4,954,893	5,158,544
Retained Earnings	23,631,700	24,209,788
	28,753,107	29,619,819
Less Cost of Treasury Stock (94,800 and 142,258 Shares, Respectively)	594,885	595,792
	28,158,222	29,024,027
	$35,743,400	$35,231,057

ASTRO-MED, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	May 4, 1991	May 2, 1992
Net Sales	$ 6,881,736	$ 7,867,311
Cost of Sales	3,510,041	3,867,122
Gross Profit	3,371,695	4,000,189
Costs and Expenses:		
Selling, General and Administrative	2,024,721	2,514,249
Research and Development	529,721	553,402
	2,554,442	3,067,651
Operating Income	817,253	932,538
Other Income (Expense):		
Interest and Dividend Income	129,671	189,316
Interest Expense	(44,316)	(25,662)
Litigation Settlement, Net of Related Expenses	11,307,838	
Other Income (Expense), Net	(275,032)	(8,004)
	11,118,161	155,650
Income before Income Taxes	11,935,414	1,088,188
Provision for Income Taxes	4,254,000	413,000
Net Income	$ 7,681,414	$ 675,188
Earnings Per Common Share	$1.53	$.13
Weighted Average Number of Common and Common Equivalent Shares Outstanding	5,032,203	5,219,956
Dividends Declared Per Common Share		$.03

ASTRO-MED, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended May 4, 1991	Three Months Ended May 2, 1992
Cash Flows from Operating Activities:		
Net Income	$ 7,681,414	$ 675,188
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	204,843	255,699
Deferred Income Taxes	10,000	9,000
Other	41,133	(30,476)
Changes in Assets and Liabilities:		
Accounts Receivable	1,143,633	348,193
Inventories	(66,001)	(129,600)
Other	21,240	30,348
Accounts Payable and Accrued Expenses	855,992	(201,173)
Income Taxes	3,859,724	(874,975)
Total Adjustments	6,070,564	(592,984)
Net Cash Provided by Operating Activities	13,751,978	82,204
Cash Flows from Investing Activities:		
Proceeds from Sales of Investments	550,000	6,803,769
Purchases of Investments	(13,325,654)	(6,565,146)
Additions to Property, Plant and Equipment	(132,152)	(702,611)
Net Cash Used by Investing Activities	(12,907,806)	(463,988)
Cash Flows from Financing Activities:		
Payments of Long-Term Debt	(138,750)	(100,000)
Proceeds from Common Shares Issued Under Employee Benefit Plans	6,403	76,717
Dividends Paid		(97,100)
Net Cash Used by Financing Activities	(132,347)	(120,383)
Net Increase (Decrease) in Cash and Cash Equivalents	711,825	(502,167)
Cash and Cash Equivalents, Beginning of Period	1,802,507	2,030,787
Cash and Cash Equivalents, End of Period	$ 2,514,332	$ 1,528,620
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Period for:		
Interest	$ 44,055	$ 26,399
Income Taxes	$ 384,276	$ 1,294,548

ASTRO-MED, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 2, 1992

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The accompanying financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company's annual report on Form 10-K for the year ended January 31, 1992.

(b) Earnings per common share are computed based on the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents include certain stock options under the treasury stock method. Fully diluted earnings per share have not been separately presented since they would not be materially different. All earnings per share data reflects a 50% stock dividend paid in May 1992 (see Note 3 below).

Note 2 - INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market and include material, labor and manufacturing overhead. The components of inventories were as follows:

	January 31, 1992	May 2, 1992
Materials and Supplies...	$3,288,770	$3,725,578
Work-In-Process..........	414,864	529,656
Finished Goods...........	1,309,256	887,256
	$5,012,890	$5,142,490

Note 3 - STOCK SPLIT EFFECTED BY STOCK DIVIDEND

A 3 for 2 stock split effected in the form of a 50% stock dividend was approved by the Company's Board of Directors on April 1, 1992. The stock dividend was paid on May 18, 1992 to shareholders of record on May 1, 1992. Cash was paid in lieu of fractional shares. The increase in issued shares is reflected in the accompanying financial statements.

NOTE 4 - SUBSEQUENT EVENT

At the Annual Meeting of Shareholders of the Company held on May 5, 1992, a proposed amendment to the Company's Restated Articles of Incorporation to increase the number of authorized common shares from 6,000,000 to 13,000,000 was approved.

ASTRO-MED, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations:

Net sales for the first quarter of the current fiscal year were 14% higher than the total for the first quarter a year ago. The increase was generally spread over all products, with export sales increasing as a percentage of total sales.

Since the first quarter of the prior fiscal year, problems in the economies of most countries have resulted in the rate of incoming orders on all products being slightly below expectations. The Company has stayed relatively close to its sales and earnings forecasts, however, and is optimistic that sales growth will continue. This optimism exists because sales inquiries have remained at a high level and new products are expected to favorably impact future sales.

Gross profit as a percentage of sales was 51% in the current quarter as compared to 49% in the first quarter of the prior year. The principal factor affecting gross profit has been the mix of products sold in the respective periods. The increase in the current quarter is also partly attributable to firmer pricing.

Selling, general and administrative expenses in the current quarter were up 24% from the total in the first quarter of the prior year. Compensation and other expenses associated with an enlarged international sales staff increased the totals in the current quarter. Also, advertising was expanded somewhat in the first quarter of the current year.

Research and development costs in the first quarter of the current year were 5% higher than the total for the comparable quarter of the prior year reflecting an increased level of activity. The increase in costs was minimized by a reduction in the consumption of prototype parts.

Interest and dividend income in the current year quarter was impacted positively by a substantial increase in cash available to invest as compared to the prior year quarter.

The income reported in the prior quarter as litigation settlement, net of related expenses is described in Note 9 of Notes to Consolidated Financial Statements contained in the Company's annual report on Form 10-K for the year ended January 31, 1992. Net income for the first quarter of the prior year includes $7,284,000, equal to $1.45 per share, resulting from such nonoperating income.

Other income (expense), net decreased substantially in the current quarter as compared to the total net expense in the prior year quarter principally because of foreign currency transaction losses recognized in the prior year quarter. In that quarter, the Company had excess working capital denominated in foreign currency.

In the second quarter of the prior fiscal year, the Company began a program of paying quarterly cash dividends on its outstanding shares of common stock.

Financial Condition:

Long-term debt appearing in the consolidated balance sheet as of the end of the current period consists of industrial development revenue bond financings used to construct facilities and make major acquisitions of machinery and equipment. No additional long-term debt is contemplated.

The Company's present cash and marketable securities, together with funds generated from operations, are expected to satisfy requirements for working capital and other needs for the foreseeable future.

PART II. OTHER INFORMATION

Item 4. Results of Vote of Security Holders

At the Annual Meeting of Shareholders of the registrant held on May 5, 1992, a proposed amendment to the Company's Restated Articles of Incorporation was presented to the shareholders for their approval.

The proposal was: To approve an amendment to Article FOURTH of the Company's Restated Articles of Incorporation to increase the authorized common stock from 6,000,000 shares to 13,000,000 shares. The vote was: For--2,366,844; Against--256,191; Abstain--28,717.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None.

(b) Reports on Form 8-K:

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ASTRO-MED, INC.
(Registrant)

Date: May 29, 1992

By____________________
A. W. Ondis, Chairman
(Principal Executive Officer)

Date: May 29, 1992

By____________________
Eugene S. Libby, Vice
President and Treasurer
(Principal Financial Officer)

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission File No. 0-13556

Berry and Boyle Cluster Housing Properties
(A California Limited Partnership)
(Exact name of registrant as specified in its charter)

California	04-2817478
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
57 River St., Wellesley Hills, MA	02181
(Address of principal executive offices)	(Zip Code)

(617) 237-0544
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

B

BERRY AND BOYLE CLUSTER HOUSING PROPERTIES

(a California Limited Partnership)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 1992 (Unaudited)	December 31, 1991
Property, at cost (Notes 2, 3, 5, and 6):		
Land	$3,677,028	$3,671,755
Buildings and improvements	14,042,328	13,981,950
Equipment, furnishings and fixtures	1,087,839	1,087,839
	18,807,195	18,741,544
Less accumulated depreciation	(3,126,579)	(2,936,160)
	15,680,616	15,805,384
Cash and cash equivalents (Notes 2 and 4)	341,577	370,492
U. S. Government Obligations (Note 2)	904,170	1,048,656
Real estate tax escrows	64,112	76,289
Deposits and prepaid expenses	117,095	66,435
Accounts and interest receivable	117,413	18,716
Deferred expenses, net of accumulated amortization of $0 and $547,381 (Note 2)	164,078	77,989
Total assets	$17,389,061	$17,463,961

LIABILITIES AND PARTNERS' EQUITY

	June 30, 1992 (Unaudited)	December 31, 1991
Mortgage notes payable (Note 6)	9,075,000	8,921,356
Accounts payable and accrued expenses	109,635	176,606
Due to affiliates (Note 8)	12,897	4,258
Rents received in advance	-	13,955
Tenant security deposits	66,530	65,005
Total liabilities	9,264,062	9,181,180
Partners' equity (Note 7)	8,124,999	8,282,781
Total liabilities and partners' equity	$17,389,061	$17,463,961

The accompanying notes are an integral part
of the consolidated financial statements

BERRY AND BOYLE CLUSTER HOUSING PROPERTIES
(a California Limited Partnership)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1992	1991	1992	1991
Revenue:				
Rental income	$527,885	$476,047	$1,054,123	$966,802
Interest income	16,328	24,652	35,146	50,777
Other income	14,003	8,748	26,960	17,589
Total revenue	558,216	509,447	1,116,229	1,035,168
Expenses:				
General and administrative (Note 8)	48,752	45,614	88,759	91,179
Operations	226,421	231,586	448,616	447,344
Depreciation and amortization	169,252	128,189	268,306	256,378
Interest	217,259	200,996	434,202	402,546
Total expenses	661,684	606,385	1,239,883	1,197,447
Net loss	($103,468)	($96,938)	($123,654)	($162,279)
Net loss allocated to:				
General Partners	($1,035)	(969)	($1,237)	($1,623)
Per unit of Investor Limited Partner interest: 32,421 units issued	(3.16)	(2.96)	(3.78)	(4.96)

The accompanying notes are an integral part of the consolidated financial statements

BERRY AND BOYLE CLUSTER HOUSING PROPERTIES
(a California Limited Partnership)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

(Unaudited)

	General Partners	Investor Limited Partners	Total Partners' Equity
Balance at December 31, 1990	($117,145)	$8,805,375	$8,688,230
Cash distributions	(6,314)	(119,958)	(126,272)
Net loss	(2,792)	(276,385)	(279,177)
Balance at December 31, 1991	(126,251)	8,409,032	8,282,781
Cash distributions	(1,706)	(32,422)	(34,128)
Net loss	(1,237)	(122,417)	(123,654)
Balance at June 30, 1992	($129,194)	$8,254,193	$8,124,999

The accompanying notes are an integral part
of the consolidated financial statements

BERRY AND BOYLE CLUSTER HOUSING PROPERTIES

(a California Limited Partnership)

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (decrease) in cash and cash equivalents

(Unaudited)

	Six Months Ended June 30,	
	1992	1991
Cash flows from operating activities:		
Interest received	$32,985	$39,431
Cash received from rents	1,041,693	970,977
Cash received from other income	26,960	17,589
Administrative expenses	(93,676)	(93,712)
Rental operations expenses	(470,897)	(439,264)
Interest paid	(487,665)	(402,640)
Net cash provided by operating activities	49,400	92,381
Cash flows from investing activities:		
Purchase of fixed assets	(65,651)	-
Cash received from (paid for) U.S. Government Obligations	144,486	(35,265)
Net cash provided (used) by investing activities	78,835	(35,265)
Cash flows from financing activities:		
Distributions to partners	(34,128)	(90,438)
Proceeds from mortgage notes payable	9,075,000	-
Repayment of mortgage notes payable	(8,884,408)	-
Deposits	(112,692)	-
Cash paid for deferred costs	(163,974)	-
Principal payments on mortgage notes payable	(36,948)	(43,824)
Net cash provided (used) by financing activities	(157,150)	(134,262)
Net increase (decrease) in cash and cash equivalents	(28,915)	(77,146)
Cash and cash equivalents at beginning of period	370,492	231,052
Cash and cash equivalents at end of period	$341,577	$153,906

The accompanying notes are an integral part
of the consolidated financial statements

BERRY AND BOYLE CLUSTER HOUSING PROPERTIES
(a California Limited Partnership)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (decrease) in cash and cash equivalents
(Unaudited)

Reconciliation of net loss to net cash provided by operating activities:

	Six Months Ended June 30, 1992	Six Months Ended June 30, 1991
Net loss	($123,654)	($162,279)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	268,306	256,378
Change in assets and liabilities net of effects from investing and financing activities:		
Decrease in real estate tax escrows	12,177	56,377
Increase in accounts and interest receivable	(2,161)	(6,346)
Decrease in accounts payable and accrued expenses	(66,973)	(66,036)
Increase in due to affiliates	8,639	10,112
Decrease in rent received in advance	(13,955)	-
Increase in prepaid expenses	(34,504)	-
Increase in tenant security deposits	1,525	4,175
Net cash provided by operating activities	$49,400	$92,381

The accompanying notes are an integral part
of the consolidated financial statements

BERRY AND BOYLE CLUSTER HOUSING PROPERTIES
(A California Limited Partnership)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of Partnership:

Berry and Boyle Cluster Housing Properties (a California Limited Partnership) (the "Partnership") was formed on August 8, 1983. The Partnership issued all of the General Partnership Interests to three General Partners in exchange for capital contributions aggregating $2,000. Stephen B. Boyle, Richard G. Berry, and Berry and Boyle Management (a California Limited Partnership) ("Management") are the General Partners. A total of 2,000 individual Limited Partners owning 32,421 units have contributed $16,210,500 of capital to the Partnership. At June 30, 1992, the total number of Limited Partners was 1,994. Except under certain limited circumstances, as defined in the Partnership Agreement, the General Partners are not required to make any additional capital contributions. The General Partners or their affiliates will receive various fees for services and reimbursement for various organizational and selling costs incurred on behalf of the Partnership.

The accompanying consolidated financial statements present the activity of the Partnership for the six months ended June 30, 1992 and 1991. The information for these periods has not been examined by independent accountants, but includes all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the results for such periods.

The Partnership will continue until December 31, 2010, unless terminated earlier by the sale of all, or substantially all, of the assets of the Partnership, or otherwise in accordance with the provisions of Section 16 of the Partnership Agreement.

2. Significant Accounting Policies:

A. Basis of Presentation

The consolidated financial statements include the accounts of the Partnership and its subsidiaries: Sin Vacas Joint Venture (Sin Vacas), Autumn Ridge Joint Venture (Autumn Ridge) and Villa Antigua Joint Venture (Villa Antigua). All intercompany accounts and transactions have been eliminated in consolidation. The Partnership follows the accrual basis of accounting.

B. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

C. U. S. Government Obligations

U. S. Government Obligations consists of various forms of U. S. Government backed securities, with an aggregate par value of $914,610, which mature on various dates between November, 1992 and February, 1993. The securities were purchased at an aggregate cost of $906,145, with yields ranging from 4.15% to 4.87%.

D. Depreciation

Depreciation is provided for by the use of the straight-line method over estimated useful lives as follows:

Buildings and improvements	40 years
Equipment, furnishings and fixtures	5 years

E. Organization Costs

Costs in connection with the organization of the Partnership have been amortized over a 5-year period using the straight-line method.

F. Deferred Expenses

Costs of obtaining the mortgages on the properties are being amortized over the term of the related mortgage notes payable using the straight-line method. Fees paid to certain of the property developers were amortized over the term of the services provided using the straight-line method.

G. Offering Costs

Costs in connection with the offering of Units were charged to Investor Limited Partners' equity upon the sale of the related Units.

H. Income Taxes

The Partnership is not liable for Federal or state income taxes because Partnership income or loss is allocated to the Partners for income tax purposes. If the Partnership's tax returns are examined by the Internal Revenue Service or state taxing authority and such an examination results in a change in Partnership taxable income (loss), such change will be reported to the Partners.

I. Rental Income

Leases require the payment of rent in advance, however, rental income is recorded as earned.

3. Property:

Property, at cost, consisted of the following at June 30, 1992:

Property Description	Initial Cost to Partnership			Costs Capitalized Subsequent to Acquisition			Gross Amount at Which Carried at Close of Period				
	Land	Buildings and Improvements	Equipment, Furnishings & Fixtures	Land	Buildings and Improvements	Equipment, Furnishings & Fixtures	Land	Buildings and Improvements	Equipment, Furnishings & Fixtures	Total	Accumulated Depreciation
Villas Sin Vacas, a 72-unit residential rental complex located in Tucson, Arizona	$799,913	$3,948,060	$344,615	$22,146	$75,678	$692	$822,059	$4,023,738	$345,307	$5,191,104	$1,014,665
Autumn Ridge, a 96-unit residential rental complex located in Colorado Springs, Colorado	1,242,061	5,981,166	380,288	-	85,837	(14,994)	1,242,061	6,067,003	365,294	7,674,358	1,255,607
Villa Antigua, an 88-unit residential rental complex located in Scottsdale, Arizona	1,610,646	3,942,388	376,709	2,262	9,199	529	1,612,908	3,951,587	377,238	5,941,733	856,307
	$3,652,620	$13,871,614	$1,101,612	$24,408	$170,714	($13,773)	$3,677,028	$14,042,328	$1,087,839	$18,807,195	$3,126,579

Depreciation expense for the six months ended June 30, 1992 and 1991 and accumulated depreciation at June 30, 1992 and December 31, 1991 consisted of the following:

	Depreciation Expense		Accumulated Depreciation	
	1992	1991	June 30, 1992	December 31, 1991
Buildings and improvements	$174,438	$174,438	$2,057,864	$1,883,426
Equipment, furnishings and fixtures	15,981	74,252	1,068,715	1,052,734
	$190,419	$248,690	$3,126,579	$2,936,160

4. Cash and Cash Equivalents:

Cash and cash equivalents at June 30, 1992 and December 31, 1991 consisted of the following:

	June 30, 1992	December 31, 1991
Cash on hand	$ 18,331	$ 51,874
Certificates of deposit	185,000	185,000
Money market accounts	138,246	133,618
	$341,577	$370,492

5. Joint Venture and Property Acquisitions:

Sin Vacas

On October 25, 1985, the Partnership acquired a majority interest in the Sin Vacas Joint Venture, which owns and operates the Villas at Sin Vacas, a 72-unit residential property located in Tucson, Arizona. Since the Partnership owns a majority interest in the joint venture, the accounts and operations of the joint venture have been consolidated into those of the Partnership.

The Partnership made initial cash payments in the form of capital contributions totalling $2,458,507 and funded $398,949 of property acquisition costs which were treated as a capital contribution to the joint venture. Since completion of construction, the Partnership has made additional contributions totalling $134,379, $10,739 and $14,228 of which were contributed during 1992 and 1991, respectively. At June 30, 1992, the total capital contributions and acquisition costs incurred were $2,573,149 and $418,686, respectively.

Net cash from operations (as defined in the joint venture agreement) is to be distributed as available to each joint venture partner quarterly as follows:

> First, to the Partnership, an amount equal to 8.75% per annum, noncumulative (computed daily on a simple noncompounded basis from the date of completion funding) of the Partnership's capital investment, as defined in the joint venture agreement;
>
> Second, the balance 70% to the Partnership and 30% to the co-venturer.

All losses from operations and depreciation for the joint venture are allocated 99% to the Partnership and 1% to the co-venturer.

All profits from operations, to the extent of cash distributions, shall first be allocated to the Partnership and co-venturer in the same proportion as the cash distribution. Any remaining profits are allocated 70% to the Partnership and 30% to the co-venturer.

In the case of certain capital transactions and distributions as defined in the joint venture agreement, the allocation of related profits, losses and cash distributions, if any, would be different than as described above and would be effected by the relative balances in the individual partners' capital accounts.

Autumn Ridge

On July 16, 1986, the Partnership acquired Autumn Ridge, a 96-unit residential property located in Colorado Springs, Colorado and simultaneously contributed the property to a joint venture comprised of the Partnership and an affiliate of the property developer. Since the Partnership owns a majority interest in the joint venture, the accounts and operations of the joint venture have been consolidated into those of the Partnership.

The Partnership made initial cash payments in the form of capital contributions totalling $3,819,397 and funded $546,576 of property acquisition costs which were treated as a capital contribution to the joint venture. Since completion of construction, the Partnership has made additional contributions totalling $331,476, $77,701 and $9,817 of which were contributed during 1992 and 1991, respectively. At June 30, 1992 the total capital contributions and acquisition costs incurred were $4,199,974 and $497,475, respectively.

Net cash from operations (as defined in the joint venture agreement) is to be distributed as available to each joint venture partner quarterly as follows:

> First, to the Partnership, an amount equal to 8% per annum, noncumulative (computed daily on a simple noncompounded basis from the date of completion funding) of the Partnership's capital investment, as defined in the joint venture agreement;
>
> Second, the balance 82% to the Partnership and 18% to the co-venturer.

All losses from operations and depreciation for the joint venture are allocated 100% to the Partnership.

All profits from operations, to the extent of cash distributions, shall first be allocated to the Partnership and co-venturer in the same proportion as the cash distribution. Any remaining profits are allocated 82% to the Partnership and 18% to the co-venturer.

In the case of certain capital transactions and distributions as defined in the joint venture agreement, the allocation of related profits, losses and cash distributions, if any, would be different than as described above and would be effected by the relative balances in the individual partners' capital accounts.

Villa Antigua

On June 11, 1987, the Partnership acquired a majority interest in the Villa Antigua Joint Venture, which owns and operates Villa Antigua, an 88-unit residential property located in Scottsdale, Arizona. Since the Partnership owns a majority interest in the joint venture, the accounts and operations of the joint venture have been consolidated into those of the Partnership.

The Partnership made initial cash payments in the form of capital contributions totalling $2,494,677 and funded $381,729 of property acquisition costs which were treated as a capital contribution to the joint venture. Since completion of construction, the Partnership has made additional contributions totalling $11,990. At June 30, 1992, the total capital contributions and acquisition costs were $2,506,667 and $381,729, respectively.

Net cash from operations (as defined in the joint venture agreement) is to be distributed as available to each joint venture partner quarterly as follows:

> First, to the Partnership, an amount equal to 10% per annum, noncumulative (computed daily on a simple noncompounded basis from the date of completion funding) of the Partnership's adjusted capital investment, as defined in the joint venture agreement;
>
> Second, the balance 70% to the Partnership and 30% to the co-venturer.

All losses from operations and depreciation for the joint venture are allocated 99% to the Partnership and 1% to the co-venturer.

All profits from operations, to the extent of cash distributions, shall first be allocated to the Partnership and co-venturer in the same proportion as the cash distributions; however, if for any taxable year there are no cash distributions, profits are allocated 99% to the Partnership and 1% to the co-venturer.

In the case of certain capital transactions and distributions as defined in the joint venture agreement, the allocation of related profits, losses and cash distributions, if any, would be different than as described above and would be effected by the relative balances in the individual partners' capital accounts.

6. Mortgage Notes Payable:

All of the property owned by the Partnership is pledged as collateral for the nonrecourse mortgage notes payable outstanding at June 30, 1992 and December 31, 1991 which consisted of the following:

	June 30, 1992	December 31, 1991
Villas at Sin Vacas	$2,575,000	$2,527,924
Autumn Ridge	3,300,000	3,238,348
Villa Antigua	3,200,000	3,155,084
	$9,075,000	$8,921,356

On June 30, 1992, Villas Sin Vacas refinanced its permanent loan using the proceeds of a new first mortgage loan in the amount of $2,575,000. Under the terms of the new note, monthly principal and interest payments of $21,830, based on a fixed interest rate of 9.125%, are required over the term of the loan. The balance of the note will be due on July 15, 1997. The loan was refinanced to eliminate a recent increase in the interest rate which was called for under the terms of the original note. The costs associated with this refinancing totaled approximately $45,000 and were funded from the proceeds of the new loan.

On June 30, 1992, Autumn Ridge refinanced its permanent loan using the proceeds of a new first mortgage loan in the amount of $3,300,000. Under the terms of the new note, monthly principal and interest payments of $27,976 are required over the term of the loan, based on a fixed interest rate of 9.125%. The balance of the note will be due on July 15, 1997. The loan was refinanced to eliminate a recent increase in the interest rate which was called for under the terms of the original note. The costs associated with this refinancing totaled approximately $59,000 and were funded from the proceeds of the new loan.

On June 30, 1992, Villa Antigua refinanced its permanent loan using the proceeds of a new first mortgage loan in the amount of $3,200,000. Under the terms of the new note, monthly principal and interest payments of $27,128, based on a fixed interest rate of 9.125%, are required over the term of the loan. The balance of the note will be due on July 15, 1997. The loan was refinanced to avoid a significant increase in the interest rate that was scheduled to take effect in July, 1992, under the terms of the original note. The costs associated with this refinancing totaled approximately $54,000 and were funded from the proceeds of the new loan.

Interest, pertaining to Sin Vacas, of $18,959 was accrued at December 31, 1991.

The aggregate principal amounts of long term borrowings due during the calendar years 1993 through 1997, respectively, are as follows, $103,042, $112,848, $123,587, $135,348, and $8,600,175.

7. Partners' Equity:

Under the terms of the Partnership Agreement profits are allocated 95% to the Limited Partners and 5% to the General Partners; losses are allocated 99% to the Limited Partners and 1% to the General Partners.

Cash distributions to the partners are governed by the Partnership Agreement and are made, to the extent available, 95% to the Limited Partners and 5% to the General Partners.

The allocation of the related profits, losses, and distributions, if any, would be different than described above in the case of certain events as defined in the Partnership Agreement, such as the sale of an investment property or an interest in a joint venture partnership.

8. Related-Party Transactions:

Due to affiliates at June 30, 1992 and December 31, 1991 consisted of reimbursable costs payable to Berry and Boyle Inc., an affiliate of the General Partners, in the amounts of $12,897 and $4,258, respectively.

For the six months ended June 30, 1992 and 1991, general and administrative expenses included $37,511 and $36,643, respectively, of salary reimbursements paid to the General Partners for certain administrative and accounting personnel who performed services for the Partnership.

The officers and principal shareholders of Evans Withycombe, Inc., the developer and property manager of the Villas at Sin Vacas and Villa Antigua properties and an affiliate of the co-venturers of those joint ventures, together hold a two and one half percent cumulative profit or partnership voting interest in Berry and Boyle, a California Limited Partnership ("Berry and Boyle"), which is the principal limited partner of Management. During the six months ended June 30, 1992 and 1991, $34,309 and $31,716, respectively, of property management fees were paid or accrued to Evans Withycombe, Inc.

Berry and Boyle Residential Services ("Residential Services"), the property manager of Autumn Ridge, is an affiliate of the General Partners of the Partnership. During the six months ended June 30, 1992 and 1991, $19,767 and $17,645, respectively, of property management fees were paid or accrued to Residential Services.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

In connection with its capitalization, the Partnership admitted investors who purchased a total of 32,421 Units aggregating $16,210,500. These offering proceeds, net of organizational and offering costs of $2,431,575, provided $13,778,925 of net proceeds to be used for the purchase of income-producing residential properties, including related fees and expenses, and working capital reserves. The Partnership expended $10,410,263 to (i) acquire its joint venture interests in the Sin Vacas Joint Venture, the Villa Antigua Joint Venture, and the Autumn Ridge Joint Venture, (ii) to pay acquisition expenses, including acquisition fees to one of the General Partners, and (iii) to pay certain costs associated with the refinancing of the Autumn Ridge permanent loan. The Partnership distributed $1,731,681 to the Limited Partners as a return of capital resulting from construction cost savings with respect to the Sin Vacas, Autumn Ridge and Villa Antigua projects and other excess offering proceeds. The remaining net proceeds of $1,636,981 were used to establish initial working capital reserves. These reserves may be used periodically to enable the Partnership to meet its various financial obligations including contributions to the various joint ventures that may be required. As of June 30, 1992, $167,417 cumulatively was contributed to the joint ventures for this purpose.

In addition to the proceeds generated from the public offering, the Partnership has utilized external sources of financing at the joint venture level to purchase properties. The Partnership Agreement limits the aggregate mortgage indebtedness which could be incurred in connection with the acquisition of Partnership properties to 80% of the purchase price of such properties.

The Partnership's future ability to generate cash adequate to meet its needs is dependent primarily on the successful operation of its real estate investments. Such ability is also dependent upon the future availability of bank borrowings, and upon the future refinancing and sale of the Partnership's real estate investments and the collection of any mortgage receivables which may result from such sales. These sources of liquidity will be used by the Partnership for payment of expenses related to real estate operations, debt service and professional and management fees and expenses. Net Cash From Operations, if any, as calculated under Section 10 of the Partnership Agreement, will then be available for distribution to the Partners.

Cash and cash equivalents at June 30, 1992 were $341,577, a decrease of $28,915 from the balance at December 31, 1991. The primary causes of the decrease were: (1) purchase of $65,651 of fixed assets, (2) $34,128 of distributions to partners, (3) $ 112,692 of deposits relating to loan refinancings, and (4) $36,948 of principal amortization. These decreases in cash were offset by $49,400 of net cash from operations and the liquidation of $144,486 of U.S. Government Obligations which were converted to cash and cash equivalents.

Cash and cash equivalents at June 30, 1991 were $153,906, a decrease of $77,146 from the balance at December 31, 1990. The primary causes of the decrease were: (1) the purchase of $35,265 of U.S. Treasury Bills, (2) $43,824 of principal amortization on the various permanent loans, and (3) $90,438 of cash distributions to partners. These decreases were partially offset by $92,381 of cash flow generated from operating activities.

Property Status

Villas at Sin Vacas

As of June 30, 1992, the property was 92% occupied, compared to 88% approximately one year ago. In June 1992, the average monthly rents collected for the various unit types were as follows:

Unit Type	Average Monthly Rents
One bedroom one bath den	$668
Two bedroom two bath	796
Three bedroom two bath	926

Autumn Ridge

As of June 30, 1992, the property was 93% occupied, compared to 94% approximately one year ago. In June 1992, the average monthly rents collected for the various unit types were as follows:

Unit Type	Average Monthly Rents
One bedroom one bath	$635
Two bedroom two bath	771

Villa Antigua

As of June 30, 1992, the property was 91% occupied, compared to 81% approximately one year ago. In June 1992, the average monthly rents collected for the various unit types were as follows:

Unit Type	Average Monthly Rents
One bedroom one bath	$629
Two bedroom two bath	709
Three bedroom two bath	829

Results of Operations

For the three months ended June 30, 1992, the Partnership recognized interest income earned on short term investments of $15,475 and administrative expenses of $44,322 , as well as its share of the income or losses allocated and cash distributions from the Joint Ventures as follows:

For the three months ended June 30, 1992:

	Sin Vacas	Autumn Ridge	Villa Antigua
Revenue	$156,510	$200,296	$185,935
Expenses:			
General and administrative	1,476	1,477	1,477
Operations	71,939	85,489	68,993
Depreciation and amortization	56,090	66,949	46,213
Interest	65,218	82,081	69,960
	194,723	235,996	186,643
Net loss	($38,213)	($35,700)	($708)
Cash distributions	$14,500	$37,000	$34,000

For the three months ended June 30, 1991, the Partnership recognized interest income earned on short term investments of $23,263 and administrative expenses of $41,441, as well as its share of the income or losses allocated and cash distributions from the Joint Ventures as follows:

For the three months ended June 30, 1991:

	Sin Vacas	Autumn Ridge	Villa Antigua
Revenue	$144,397	$180,243	$161,544
Expenses:			
General and administrative	1,390	1,393	1,390
Operations	79,627	90,839	61,120
Depreciation and amortization	26,777	57,187	44,225
Interest	57,188	72,353	71,455
	164,982	221,772	178,190
Net loss	($ 20,585)	($ 41,529)	($ 16,646)
Cash distributions	$ 15,000	$ 9,000	$ 23,000

For the six months ended June 30, 1992, the Partnership recognized interest income earned on short term investments of $33,331 and administrative expenses of $80,051 , as well as its share of the income or losses allocated and cash distributions from the Joint Ventures as follows:

For the six months ended June 30, 1992:

	Sin Vacas	Autumn Ridge	Villa Antigua
Revenue	$312,798	$395,348	$374,752
Expenses:			
General and administrative	2,902	2,903	2,903
Operations	147,946	160,180	140,490
Depreciation and amortization	82,867	106,003	79,436
Interest	131,598	161,715	140,889
	365,313	430,801	363,718
Net loss	($52,515)	($35,453)	$11,034
Cash distributions	$30,500	$80,000	$71,000

For the six months ended June 30, 1991, the Partnership recognized interest income earned on short term investments of $47,949 and administrative expenses of $83,163, as well as its share of the income or losses allocated and cash distributions from the Joint Ventures as follows:

For the six months ended June 30, 1991:

	Sin Vacas	Autumn Ridge	Villa Antigua
Revenue	$290,744	$352,896	$343,579
Expenses:			
General and administrative	2,671	2,674	2,671
Operations	146,353	172,093	128,898
Depreciation and amortization	53,554	114,374	88,450
Interest	114,581	144,887	143,078
	317,159	434,028	363,097
Net loss	($ 26,415)	($ 81,132)	($ 19,518)
Cash distributions	$ 24,000	$ 14,000	$ 53,300

Comparison of Operating Results for the quarter ended June 30, 1992 and 1991:

Interest income at the Partnership level declined approximately 34% as a result of lower interest rates on the Partnership's short-term investments. Rental income increased at each of the properties over the prior year period by an aggregate of 11%. Depreciation and amortization expense increased 32% as a result of the write off of certain costs associated with the recently refinanced permanent loans for the three properties.

Comparison of Operating Results for the six months ended June 30, 1992 and 1991:

Interest income at the Partnership level declined approximately 31% as a result of lower interest rates on the Partnership's short-term investments. No other variances in income and expense categories warrant further analysis because such variances were under 10%.

Thus far in 1992, the Partnership has made the following cash distributions to its Partners:

	Feb 15	May 15	Total
Limited Partners	$16,211	$16,211	$32,422
General Partners	853	853	1,706
	$17,064	$17,064	$34,128

PART II-OTHER INFORMATION

ITEM 1. Legal Proceedings
Response: None

ITEM 2. Changes in Securities
Response: None

ITEM 3. Defaults Upon Senior Securities
Response: None

ITEM 4. Submission of Matters to a Vote of Security Holders
Response: None

ITEM 5. Other Information
Response: None

ITEM 6. Exhibits and Reports on Form 8-K
Response: None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BERRY AND BOYLE CLUSTER HOUSING PROPERTIES
(Partnership)

BY: BERRY AND BOYLE MANAGEMENT
A General Partner

BY: BERRY AND BOYLE INC.
A General Partner

By: /s/ James E. Glynn
James E. Glynn
Treasurer

Date: August 5, 1992

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Form 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 1992

Commission file number 0-8829

BEST COPY AVAILABLE

Central Fidelity Banks, Inc.

(Exact name of registrant as specified in its charter)

Virginia (State of incorporation)	**54-1091649** (I.R.S. Employer Identification No.)
1021 East Cary Street **Richmond, Virginia** (Address of principal executive offices)	**23219** (Zip Code)

(804) 782-4000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

L3Q

Class of Common Stock	Outstanding at July 20, 1992
$5 par value	21,983,238 shares

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated balance sheet of Central Fidelity Banks, Inc. and subsidiaries (the "Company") as of June 30, 1992 and 1991, the related statements of consolidated income and changes in consolidated shareholders' equity for the three-month and six-month periods ended June 30, 1992 and 1991, and the tables entitled "Average Balances and Interest Rates (Taxable Equivalent Basis)," "Interest Sensitivity Analysis," and "Selected Loan Loss Data" contained in the Company's Report to Shareholders for the Second Quarter 1992 (Exhibit 20) are hereby incorporated herein by reference. No other part of said report to shareholders is considered filed herewith except for the aforementioned financial statements and tables.

The consolidated balance sheet as of December 31, 1991, and the statement of consolidated cash flows for the six-month periods ended June 30, 1992 and 1991, are included herein.

The aforementioned interim consolidated financial statements as of June 30, 1992 and 1991, and for the three-month and six-month periods ended June 30, 1992 and 1991, are unaudited and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 1992 are not necessarily indicative of the results that may be expected for the year ending December 31, 1992 or for any other interim period. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991, as amended.

Central Fidelity Banks, Inc. and Subsidiaries

Consolidated Balance Sheet

	December 31, 1991 (In thousands)
Assets	
Cash and due from banks	$ 265,727
Money market investments:	
Federal funds sold and securities purchased under agreements to resell	127,681
Interest-bearing deposits in other banks	85,000
Total money market investments	212,681
Investment securities (market value $1,138,439)	1,098,859
Securities available for sale (market value $1,421,875)	1,381,167
Trading account securities	763
Total loans	3,619,218
Allowance for loan losses	(61,000)
Net loans	3,558,218
Accrued interest receivable	46,622
Premises and equipment, net	138,308
Due from customers on acceptances	16,469
Other assets	87,006
Total assets	$6,805,820
Liabilities	
Deposits:	
Demand	$ 672,195
Savings and other time	4,234,866
Certificates of deposit $100,000 and over	270,964
Total deposits	5,178,025
Short-term borrowings:	
Federal funds purchased and securities sold under agreements to repurchase	985,274
Other short-term borrowings	32,164
Total short-term borrowings	1,017,438
Dividends payable	6,106
Accrued interest payable	20,118
Bank acceptances outstanding	16,469
Accounts payable and accrued liabilities	115,515
Long-term debt	12,590
Capitalized lease obligations	10,136
Total liabilities	6,376,397
Shareholders' Equity	
Preferred stock, none issued	—
Common stock, par value $5 per share, authorized 50,000,000 shares, shares issued 21,810,549	109,053
Capital surplus	60,791
Retained earnings	259,579
Total shareholders' equity	429,423
Total liabilities and shareholders' equity	$6,805,820

Note: In July 1992, after discussions with the Securities and Exchange Commission staff, the Company revised its securities accounting policy, and reclassified $1.2 billion of investment securities to securities available for sale at December 31, 1991. This had no effect on the results of operations for the year ended December 31, 1991, as the reclassified portfolio's aggregate market value exceeded its book value.

STATEMENT OF CONSOLIDATED CASH FLOWS
Central Fidelity Banks, Inc. and Subsidiaries

(In Thousands) For the six months ended June 30,	1992	1991
OPERATING ACTIVITIES		
Net income	$35,616	$29,853
Adjustments to reconcile net income to net cash used by operating activities:		
Provision for loan losses	48,747	17,700
Depreciation of premises and equipment	6,859	6,647
Net amortization of premium and accretion of discount on investment securities and securities available for sale	1,266	345
Gains on securities available for sale	(22,431)	(377)
Deferred income taxes	(7,655)	(991)
(Increase) decrease in accrued interest receivable	(4,785)	2,665
Increase (decrease) in accrued interest payable	(3,117)	1,854
Decrease in trading account securities	314	558
Other, net	(143,317)	(120,626)
Net cash used by operating activities	(88,503)	(62,332)
INVESTING ACTIVITIES		
Purchases of [redacted] securities	(1,179,367)	(597,625)
Proceeds from sales of [redacted] securities	68,809	59,461
Proceeds from maturities and repayments of [redacted] securities	264,445	133,001
Purchases of securities available for sale	(353,726)	(348,067)
Proceeds from sales of securities available for sale	964,544	447,969
Net increase in loans	(135,614)	(107,542)
Purchases of premises and equipment	(6,967)	(8,222)
Proceeds from the disposition of premises and equipment	194	43
Net cash used by investing activities	(377,682)	(420,182)
FINANCING ACTIVITIES		
Net increase in demand, interest checking and regular savings deposits	255,298	59,047
Net increase (decrease) in money market accounts	192,993	(2,952)
Net increase (decrease) in consumer certificates	(14,407)	317,870
Net increase in certificates of deposit $100,000 and over	51,055	107,346
Net decrease in short-term borrowings	(101,196)	(185,225)
Payments on long-term debt and capitalized lease obligations	(420)	(380)
Proceeds from issuance of common stock	4,135	1,946
Cash in lieu of fractional shares for 3-for-2 stock split	—	(76)
Common stock purchased	—	(561)
Cash dividends	(12,234)	(10,924)
Net cash provided by financing activities	375,224	286,091
Decrease in cash and cash equivalents	(90,961)	(196,423)
Cash and cash equivalents at beginning of year	478,408	697,076
Cash and cash equivalents at end of period	387,447	$500,653

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion is to address information about the Company's financial condition and results of operations which is not otherwise apparent from the consolidated financial statements and tables incorporated or included in this report. Reference should be made to those statements and tables and other selected financial data incorporated or presented elsewhere in this report for an understanding of the following discussion and analysis.

Results of Operations

Net income for the first six months of 1992 was approximately $35.6 million, 19.1% higher than the $29.9 million net income earned in the first six months of 1991. On a per share basis, net income increased 17.3% to $1.63 from $1.39.

Net interest income for the six months increased 17.8% to $137.4 million from $116.7 million for the corresponding 1991 period. On a tax-equivalent basis, the net interest margin was 4.55% for the six months ended June 30, 1992, up two basis points from 4.53% during the same period in 1991.

Noninterest income totalled $53.9 million, an increase of 71.2% from 1991's $31.5 million. The increase is attributable to $18.6 million greater gains on securities sales, a $1.4 million gain from the sale of the Company's bankcard merchant processing activities, plus increased trust services and related fee income and higher deposit fees and charges.

Noninterest expense for the first six months of 1992 increased 2.8% to $93.8 million, due primarily to a 42.9% increase in FDIC premiums to $5.7 million. The FDIC has proposed further increases in deposit insurance premiums for 1993. A modest increase in personnel expense was offset by tightened control of other discretionary spending and a decline in other real estate expense.

Balance Sheet

Total assets as of June 30, 1992 were $7.1 billion, an increase of 4.5% from December 31, 1991 and 13.0% from June 30, 1991. Total loans at June 30, 1992 were $3.7 billion, or 3.0% and 1.6% higher than at year-end 1991 and June 30, 1991, respectively, reflecting continued weakness in loan demand. Due to strong core deposit growth, total deposits were $5.7 billion at June 30, 1992, an increase of 9.4% from year-end 1991 and 12.9% from June 30, 1991. Shareholders' equity at June 30, 1992 was $456.2 million, or 6.4% of total assets. This was $50.7 million higher than one year earlier when shareholders' equity was also 6.4% of total assets, reflecting the growth in total assets during the past year. Shareholders' equity (book value) per share grew 10.6% from $18.80 at June 30, 1991 to $20.79 at June 30, 1992.

The following table summarizes the composition of the loan portfolio at the dates indicated:

	June 30, 1992		December 31, 1991	
	(In thousands)			
Commercial and commercial real estate	$1,548,365	42%	$1,537,611	43%
Construction	414,274	11	483,026	13
Residential real estate	416,861	11	256,863	7
Consumer second mortgage	395,477	11	377,009	10
Installment	543,913	14	537,258	15
Bank card	407,495	11	427,451	12
Total loans	$3,726,385	100%	$3,619,218	100%

Commercial real estate mortgages totalled approximately $735 million at June 30, 1992. Of this amount, approximately 32% were owner-occupied premises. Apartments and multi-family buildings represented approximately 19%, office buildings approximately 16%, hotels/motels approximately 9%, retail/wholesale outlets approximately 8%, office warehouses and flex space approximately 8%, and shopping centers approximately 6% of total commercial real estate mortgages.

Construction loans totalled $414.3 million at June 30, 1992. Of this amount, approximately 62%, or $255 million, were loans tied to residential use, including $151 million related to land acquisition and development for residential properties and $78 million related to the construction of single family residences. See "Asset Quality."

Asset Quality

Nonperforming assets as of June 30, 1992 were $116.2 million, or 3.09% of loans and foreclosed properties, compared to $69.2 million, or 1.90% of loans and foreclosed properties, at December 31, 1991, and $84.5 million, or 2.29% of loans and foreclosed properties, at June 30, 1991. A $22.5 million commercial credit relationship with a real estate developer accounted for substantially all of the increase in nonperforming assets for the quarter ended March 31, 1992. A $5.7 million commercial credit and two residential real estate credits totalling $21.1 million produced substantially all of the increase for the quarter ended June 30, 1992. Charge-offs of $7.5 million were made against these three credits during the second quarter of 1992. All these credits were in the Company's Northern Region, reflecting the continued weakness in real estate sales and values in northern Virginia.

Market developments in late 1991 and in early 1992 in northern Virginia indicated the possibility of improved sales of residential real estate in the Spring of 1992. Despite the relatively low interest rate environment, favorable prices and an increase in sales during the first quarter of 1992, improvements in sales volumes have not been broad or sustained. During the second quarter of 1992, the Company conducted an extensive review of all credits over $500,000 and all real estate credits graded substandard or lower. The Bank also has been obtaining and updating appraisals on various real estate credits. Nonperforming loans and charge-offs have increased in 1992, especially real estate credits in the Company's Northern Region, which have received greater management attention and effort. As sluggish economic conditions likely may persist during the remainder of 1992, further deterioration in various credits, especially commercial and residential acquisition, development and construction loans could occur. Nonperforming loans could increase as a result.

In addition to the increases in nonperforming assets, market factors contributed to a 19.9% increase in accruing loans 90 days or more past due from $16.5 million at year-end 1991 to $19.8 million at March 31, 1992 and an additional 12.5% increase during the second quarter of 1992 to $22.3 million. Restructured loans were $1.6 million at December 31, 1991, but decreased 83.7% to $266,000 at June 30, 1992.

The Federal Reserve's examination of the Company in early 1992 did not require any material changes from the Company's internal loan classifications. The Federal Reserve will conduct a follow-up limited examination of the Bank's major commercial and real estate loans in the fourth quarter of 1992.

The allowance for loan losses at June 30, 1992 was $81.3 million, or 2.18% of loans, compared to $61.0 million, or 1.69% of loans, at year-end 1991 and $62.3 million, or 1.70% of loans, at June 30, 1991. Net charge-offs for the six months were $28.4 million, or 1.56% of average loans on an annualized basis, compared to $16.2 million for the six months ended June 30, 1991 (.90% of average loans on an annualized basis).

The allowance for loan losses represents management's estimate of an amount adequate in relation to the risk of future losses inherent in the loan portfolio. In assessing the adequacy of the allowance, management relies predominately on its ongoing review of the loan portfolio, which is undertaken both to ascertain whether there are probable losses to be charged off and to assess the risk characteristics of the portfolio in the aggregate. Among other factors, management considers the Company's loan loss experience, the amount of past due and nonperforming loans, current and anticipated economic conditions, and the estimated current values of collateral securing loans in assessing the level of the allowance for loan losses.

While it is the Company's policy to charge off in the current period loans in which a loss is considered probable, there are additional risks of future losses which cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy as well as conditions affecting individual borrowers, management's judgment of the allowance is necessarily approximate and imprecise. It is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance for loan losses and the size of the allowance for loan losses in comparison to a peer group identified by the regulatory agencies. See "Supervision and Regulation."

The following table shows the nonperforming assets and past due loans at the dates indicated:

	June 30, 1992	December 31, 1991
	(In thousands)	
Nonaccrual loans:		
Commercial	$ 39,695	$15,110
Construction	45,325	20,469
Installment	233	274
Total nonaccrual loans	85,253	35,853
Foreclosed properties	30,972	33,383
Total nonperforming assets	$116,225	$69,236
Nonperforming assets to loans and foreclosed properties	3.09%	1.90%
Allowance to nonaccrual loans	95.36%	170.14%
Allowance to nonperforming assets	69.95%	88.10%
Accruing loans past-due 90 days or more:		
Commercial and construction	$ 15,904	$ 8,542
Real estate	415	306
Installment	2,321	3,300
Bank card	3,628	4,363
Total accruing loans past-due 90 days or more	$ 22,268	$16,511
Restructured loans	$ 266	$ 1,635

The following tables show the distribution of all loans and nonperforming assets in the Company's market regions at the dates indicated:

June 30, 1992	Capital Region	Eastern Region	Northern Region	Western Region	Southwestern Region	Total
			(In thousands)			
Total Loans	$767,420	$970,141	$654,119	$919,560	$415,145	$3,726,385
Nonperforming Assets:						
Nonaccrual loans:						
Land acquisition and development:						
Commercial	$ —	$ 91	$ 6,406	$ —	$ 29	$ 6,526
Residential	3,215	—	33,074	—	—	36,289
Residential real estate	19	1,431	143	478	622	2,693
Commercial real estate	—	339	2,278	—	—	2,617
Commercial and industrial	1,335	5,436	23,512	1,835	5,010	37,128
Total nonaccrual loans	4,569	7,297	65,413	2,313	5,661	85,253
Foreclosed properties:						
Land acquisition and development:						
Commercial	2,103	600	—	100	—	2,803
Residential	2,073	80	4,282	—	—	6,435
Residential real estate	—	1,555	6,666	—	—	8,221
Commercial real estate	2,501	3,865	4,247	—	—	10,613
Other	101	1,420	549	197	633	2,900
Total foreclosed properties	6,778	7,520	15,744	297	633	30,972
Total nonperforming assets	$ 11,347	$ 14,817	$ 81,157	$ 2,610	$ 6,294	$ 116,225
Nonperforming assets to loans and foreclosed properties	1.47%	1.52%	12.12%	.28%	1.51%	3.09%

December 31, 1991	Capital Region	Eastern Region	Northern Region	Western Region	Southwestern Region	Total
	(In thousands)					
Total Loans	$780,975	$945,313	$636,073	$868,760	$388,097	$3,619,218
Nonperforming Assets:						
Nonaccrual loans:						
Land acquisition and development						
Commercial	$ 2,188	$ 85	$ —	$ —	$ —	$ 2,273
Residential	—	—	11,803	—	250	12,053
Residential real estate	70	483	—	—	—	553
Commercial real estate	—	2,397	—	124	77	2,598
Commercial and industrial	1,258	7,386	5,255	1,106	3,371	18,376
Total nonaccrual loans	3,516	10,351	17,058	1,230	3,698	35,853
Foreclosed properties:						
Land acquisition and development:						
Commercial	—	—	—	100	—	100
Residential	2,334	100	12,880	—	—	15,314
Residential real estate	140	306	416	34	152	1,048
Commercial real estate	2,606	4,252	4,867	—	—	11,725
Other	—	1,058	3,344	162	632	5,196
Total foreclosed properties	5,080	5,716	21,507	296	784	33,383
Total nonperforming assets	$ 8,596	$ 16,067	$ 38,565	$ 1,526	$ 4,482	$ 69,236
Nonperforming assets to loans and foreclosed properties	1.09%	1.69%	5.86%	.18%	1.15%	1.90%

Capital Resources

The Company's risk-based capital and leverage ratios exceeded the Federal Reserve's minimum guidelines at June 30, 1992. The Company's total risk-based capital was $505.4 million at June 30, 1992, compared to $474.6 million at year-end 1991 and $428.7 million at year end 1990. The ratio of total risk-based capital to risk-weighted assets was 10.55% at June 30, 1992 compared to 10.60% and 9.46% at December 31, 1991 and 1990, respectively. The improvement in this ratio from year-end 1990 was due to continuing flat demand for loans with relatively high risk-weightings and increases in residential first mortgages and other assets with relatively low risk-weightings. At June 30, 1992, the Company's leverage ratio was 6.34%, compared to 6.59% and 6.50% at December 31, 1991 and 1990, respectively. At June 30, 1992, the Bank's total risk-based capital and leverage ratios were 10.16% and 6.10%, respectively.

Item 6. Exhibits and Reports on Form 8-K.

A. Exhibits:

11. Statement re computation of per share earnings—filed herewith.

20. June 30, 1992 Quarterly Report furnished to security holders—filed herewith.

B. Reports on Form 8-K:

There were no reports on Form 8-K filed during the second quarter ended June 30, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTRAL FIDELITY BANKS, INC.
(Registrant)

Date: July 22, 1992

James F. Campbell
Senior Vice President & Controller
(duly authorized officer)

Date: July 22, 1992

Charles W. Tysinger
Senior Vice President and Treasurer
(principal financial officer)

Exhibit 11

Central Fidelity Banks, Inc. and Subsidiaries

Statement re computation of per share earnings

	For the Three Months ended June 30,		For the Six Months ended June 30,	
	1992	1991	1992	1991
	(In thousands)			
Earnings:				
Net income	$19,864	$15,198	$35,616	$29,893
Shares:				
Weighted average number of common shares used in computing primary earnings per share	21,929	21,547	21,901	21,513
Dilutive stock options—based on treasury stock method	445	322	471	221
Weighted average number of common shares used in computing fully diluted earnings per share	22,374	21,869	22,372	21,734
Earnings per share:				
Primary earnings per share	$ .91	$ .71	$ 1.63	$ 1.39
Fully diluted earnings per share	$ .89	$ .69	$ 1.59	$ 1.38

Exhibit 20

Central Fidelity

"EARNINGS PER SHARE INCREASED 28.2% DURING SECOND QUARTER"

Central Fidelity Banks, Inc.
Post Office Box 27602
Richmond, Virginia 23261

Central Fidelity

Bulk Rate
U.S. Postage
Paid
Permit No. 33
Richmond, VA

Additional Information

Analysts, investors and others interested in obtaining information about Central Fidelity Banks, Inc. are asked to contact William F. Shumadine, Jr., President, Central Fidelity Bank (direct telephone (804) 697-6744)

News media representatives and others seeking general information should contact Peggy Cummings, Public Relations Manager (direct telephone (804) 697-7261)

Corporate Headquarters

1021 East Cary Street
Post Office Box 27602
Richmond, Virginia 23261
Telephone: (804) 782-4000

Transfer and Dividend Disbursing Agent

Central Fidelity Bank
Post Office Box 27602
Richmond, Virginia 23261

Common Stock

The common stock of Central Fidelity Banks, Inc. is traded in the national over-the-counter (OTC) market and is quoted through the National Market System of NASDAQ under the symbol CFBS

Automatic Dividend Reinvestment Plan

The Automatic Dividend Reinvestment Plan offers shareholders an opportunity to reinvest cash dividends in shares of common stock. Shareholders may also make additional cash payments ranging from a minimum of $25 to a maximum of $10,000 per month. Administrative expenses, including brokerage commissions if any, are borne by the Company

Central
Fidelity

CENTRAL FIDELITY BANKS, INC.

Central Fidelity Bank

Capital Region

Richmond, Henrico County, Chesterfield County, Hanover County, Petersburg, Colonial Heights, Hopewell

Eastern Region

Norfolk, Hampton, Newport News, Portsmouth, Smithfield, Suffolk, Virginia Beach, Williamsburg, Accomack County, York County, Poquoson, Hayes, Chesapeake

Northern Region

Fairfax County, Arlington County, Alexandria, Herndon, Manassas, Prince William County, Culpeper, Fredericksburg, Spotsylvania County, Stafford County

Western Region

Lynchburg, Altavista, Amelia, Amherst, Appomattox, Bedford, Blackstone, Brookneal, Buena Vista, Charlottesville, Chase City, Chatham, Clarksville, Drakes Branch, Farmville, Halifax, Kenbridge, Moneta, Natural Bridge, Rustburg, Albemarle County, Nelson County, Emporia, Jarratt

Southwestern Region

Abingdon, Blue Ridge, Buchanan, Chilhowie, Christiansburg, Blacksburg, Radford, Roanoke, Salem, Troutville, Roanoke County, Smyth County, Washington County, Franklin County, Vinton

CONSOLIDATED FINANCIAL HIGHLIGHTS

Central Fidelity Banks, Inc. and Subsidiaries

	For the three months ended June 30,			For the six months ended June 30,		
(In thousands, except share and per share data)	1992	1991	Change	1992	1991	Change
Results Of Operations						
Net interest income	$ 71,555	$ 59,999	19.3%	$ 137,431	$ 116,700	17.8%
Net income	19,864	15,198	30.7	35,616	29,893	19.1
Per Share Data						
Net income	$ .91	$ .71	28.2%	$ 1.63	$ 1.39	17.3%
Shareholders' equity	20.79	18.80	10.6	20.79	18.80	10.6
Balance At Quarter-End						
Assets	$7,112,539	$6,291,855	13.0%	$7,112,539	$6,291,855	13.0%
Loans	3,726,385	3,668,674	1.6	3,726,385	3,668,674	1.6
Securities	2,736,486	1,900,268	44.0	2,736,486	1,900,268	44.0
Deposits	5,662,964	5,014,121	12.9	5,662,964	5,014,121	12.9
Shareholders' equity	456,245	405,567	12.5	456,245	405,567	12.5
Shares outstanding	21,946,065	21,571,085	1.7	21,946,065	21,571,085	1.7
Average Daily Balance						
Assets	$7,020,095	$6,054,874	15.9%	$6,786,048	$5,906,570	14.9%
Loans	3,673,900	3,612,671	1.7	3,642,645	3,592,789	1.4
Securities	2,784,131	1,826,510	52.4	2,566,020	1,705,849	50.4
Deposits	5,615,707	4,831,737	16.2	5,455,408	4,709,809	15.8
Shareholders' equity	450,365	401,364	12.2	443,308	393,905	12.5
Shares outstanding	21,929,103	21,546,657	1.8	21,900,864	21,513,271	1.8
Ratios						
Net income (annualized) as a percentage of						
Average shareholders' equity	17.64%	15.15%	16.4%	16.07%	15.18%	5.9%
Average total assets	1.13	1.00	13.0	1.05	1.01	4.0
Allowance for loan losses as a percentage of loans	2.18	1.70	28.2	2.18	1.70	28.2
Risk-based capital*	10.55	9.97	5.8	10.55	9.97	5.8

COMMON STOCK PERFORMANCE AND DIVIDENDS

	Common Stock Prices				Dividends Per Share	
	1992		1991			
	High	Low	High	Low	1992	1991
First Quarter	$39.13	$34.75	$[illegible]	$13.88	$.28	$.25
Second Quarter	38.75	34.00	27.13	19.50	.31	.25
Third Quarter			30.38	24.50		.25
Fourth Quarter			30.25	20.75		.25

*1992 guidelines

TO OUR SHAREHOLDERS, CUSTOMERS AND FRIENDS:

Sluggish economic conditions and problems within real estate markets persisted during the second quarter of 1992 creating a difficult environment for most commercial banks. Under these conditions, we are pleased to report that Central Fidelity achieved record earnings for the quarter and the six months ended June 30, 1992.

Net income for the second quarter increased 30.7% to $19,864,000 compared with $15,198,000 for the comparable period in 1991. Net income per share for the quarter was $.91 versus $.71 in 1991, an increase of 28.2%.

For the first six months of 1992, net income was $35,616,000 or $1.63 per share versus $29,895,000 or $1.39 in the first half of 1991. This represented increases of 19.1% in net income and 17.3% in earnings per share.

Total assets as of June 30, 1992 were $7,112,539,000, representing growth of 13.0% from a year earlier. Total loans for the period rose a modest 1.6% to $3,726,385,000 while total deposits rose 12.9% to $5,662,964,000. Shareholders' equity at quarter-end was $456,245,000 or 6.4% of total assets. The book value per common share was $20.79 compared with $18.80 on June 30, 1991.

The Company recently adopted a revised securities accounting policy in accordance with guidelines suggested by the Securities and Exchange Commission. This resulted in $773 million of investment securities being classified as available for sale at June 30, 1992. Concurrent with this change, the December 31, 1991 and March 31, 1992 balance sheets were restated to reflect the reclassification of $1.179 billion and $1.137 billion, respectively, of investment securities as securities available for sale. For the period ended December 31, 1991, these changes had no impact on the Company's income statement. The subsequent adjustment to the March 31, 1992 statement reduced net income by $1,222,000 for that period, but increased net income for the three months ended June 30, 1992 by the same amount. Consequently, the reclassification had no impact on the income statement for the six months ended June 30, 1992.

The Company's return on average total assets for the six-month period was 1.05% versus 1.01% for the comparable 1991 period. The return on average shareholders' equity was 16.07% for 1992, up from 15.18% for the first half of 1991.

Net interest income for the second quarter of 1992 increased [illegible] to $73,555,000. On a tax equivalent basis the net interest margin was 4.56% versus 4.51% in the second quarter of 1991.

Noninterest income for the second quarter of 1992 excluding gains on securities sales increased 17.0% to $16,563,000. Included in this increase was a $1.4 million gain from the sale of the Company's bankcard merchant accounts. The increase in gains on securities sales totalled [illegible] during the quarter resulting from reductions in concentrations of mortgage backed securities.

Noninterest expenses increased [illegible] during the quarter [illegible]

Nonperforming assets as of June 30, 1992 were $116,225,000 or 1.63% of total assets compared to $95,217,000 or 1.38% at the end of the first quarter and $84,475,000 or 1.54% at the same date last year. The increase in nonperforming loans reflects the continued weakness in real estate sales and values in the Northern Virginia markets.

The allowance for loan losses at quarter-end was $81,300,000 or 2.18% of loans compared to $69,500,000 or 1.92% of loans at March 31, 1992 and $62,340,000 or 1.70% of loans at the end of the second quarter in 1991.

Net loan charge-offs for the quarter were $21,764,000, representing 2.37% of average loans on an annualized basis compared to $8,690,000 or .96% of average loans for the second quarter of 1991. For the six months ended June 30, 1992, net charge-offs were $28,447,000 or 1.56% of average loans compared to $16,166,000 or .90% of average loans for 1991.

On June 26, 1992, the Company was notified by the Resolution Trust Corporation that it was the successful bidder for the $871 million insured core deposit franchise of Investors Federal Savings Bank. On July 13, 1992, Investors' 47 offices in Richmond, Hampton Roads, Charlottesville, Lynchburg, Harrisonburg, Winchester, Fredericksburg and Franklin opened as Central Fidelity branches. Approximately one half of the branches will remain open with the deposit accounts of the others transferred to nearby Central Fidelity branch offices.

On May 13, 1992, your Board of Directors voted to increase the quarterly cash dividend by 10.7% to $.31 per share for an annualized rate of $1.24. This dividend, paid July 1, 1992, represents the sixteenth increase in the past thirteen years and reflects adherence to our philosophy of sharing growth in earnings with our shareholders.

During the quarter, the Company announced the retirement of Richard J. Davis, a founding member of the Board of Directors. Mr. Davis served the Company with distinction for which we are grateful, and his guidance and counsel were instrumental in our success.

We take special pride in the achievements of our 3,200 employees who have performed admirably during this challenging environment. It is through their dedication and hard work that we face the remainder of the year with confidence.

Sincerely,

Carroll L. Saine
Chairman of the Board

Lewis N. Miller, Jr.
[illegible]

CONSOLIDATED BALANCE SHEET

Central Fidelity Banks, Inc. and Subsidiaries

(In thousands) June 30,	1992	1991
Assets		
Cash and due from banks	$ 252,865	$ 187,154
Money market investments:		
Federal funds sold and securities purchased under agreements to resell	154,582	293,499
Interest-bearing deposits in other banks	—	20,000
Total money market investments	154,582	313,499
Investment securities:		
U.S. Government and agencies	1,365,920	1,415,056
States and political subdivisions	179,779	211,021
Other	418,226	274,191
Total investment securities (market value $2,013,091 in 1992, $1,901,480 in 1991)	1,963,925	1,900,268
Securities available for sale (market value $784,666 in 1992)	772,561	—
Trading account securities	449	317
Loans	3,726,385	3,668,674
Allowance for loan losses	(81,300)	(62,340)
Net loans	3,645,085	3,606,334
Accrued interest receivable	51,407	46,853
Premises and equipment, net	138,222	138,966
Due from customers on acceptances	13,424	8,323
Other assets	140,019	90,141
Total assets	$7,112,539	$6,291,855
Liabilities		
Deposits:		
Demand	$ 768,303	$ 627,206
Savings and other time	4,572,642	3,975,615
Certificates of deposit $100,000 and over	322,019	411,300
Total deposits	5,662,964	5,014,121
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	888,271	690,057
Other short-term borrowings	27,971	71,275
Total short-term borrowings	916,242	761,332
Dividends payable	6,801	6,034
Accrued interest payable	17,001	24,064
Bank acceptances outstanding	13,424	8,323
Accounts payable and accrued liabilities	17,556	45,284
Long term debt	12,554	16,624
Capitalized lease obligations	9,752	10,506
Total liabilities	6,696,294	5,886,288
Shareholders' Equity		
Common stock, par value $5 per share; authorized [illegible] shares; shares issued 1992 – [illegible]; 1991 – [illegible]	109,730	107,855
Capital surplus	64,249	56,500
Retained earnings	282,266	241,212
Total shareholders' equity	456,245	405,567
Total liabilities and shareholders' equity	$7,112,539	$6,291,855

STATEMENT OF CONSOLIDATED INCOME

Central Fidelity Banks, Inc. and Subsidiaries

(In thousands, except share and per share data)	For the three months ended June 30, 1992	1991	For the six months ended June 30, 1992	1991
Income From Earning Assets				
Interest and fees on loans	$ 89,151	$ 98,977	$178,820	$198,029
Interest on investment securities:				
U.S. Government and agencies	24,127	29,248	39,931	54,113
States and political subdivisions (tax-exempt)	2,542	3,275	5,376	6,758
Other	5,565	6,097	9,041	11,555
Interest on securities available for sale	19,738	—	43,664	138
Interest on money market investments	995	3,211	2,288	6,776
Interest on trading account securities	10	35	28	189
Total income from earning assets	142,128	140,843	279,148	277,558
Interest Expense				
Interest on deposits	61,960	69,302	125,444	137,438
Interest on federal funds purchased and securities sold under agreements to repurchase	7,789	10,353	14,583	20,794
Interest on other short-term borrowings	228	454	494	1,156
Interest on long-term debt	383	506	765	1,015
Interest on capitalized lease obligations	213	229	431	455
Total interest expense	70,573	80,844	141,717	160,858
Net interest income	71,555	59,999	137,431	116,700
Provision for loan losses	33,564	8,700	48,747	17,700
Net income from earning assets	37,991	51,299	88,684	99,000
Noninterest Income				
Trust income	3,084	2,762	6,205	5,433
Deposit fees and charges	7,113	6,790	14,173	13,313
Profits on securities available for sale and trading account securities	20,118	253	22,463	3,819
Investment securities gains (losses)	—	(1)	—	570
Other income	6,146	4,313	11,091	8,364
Total noninterest income	36,461	14,117	53,932	31,499
Noninterest Expense				
Personnel expense	24,641	23,601	49,195	47,779
Occupancy and equipment expense	9,060	8,797	18,328	17,660
FDIC insurance expense	2,858	2,152	5,675	4,971
Other real estate expense	183	613	674	1,559
Other expense	10,046	10,254	19,973	20,323
Total noninterest expense	46,788	45,307	93,845	91,292
Earnings				
Income before income taxes	27,664	20,109	48,771	39,207
Income tax expense	7,800	4,821	13,155	9,414
Net income	$ 19,864	$ 15,288	$ 35,616	$ 29,793
Earnings Per Share				
Net income	$ .91	$ .71	$ 1.63	$ 1.39
Average shares outstanding	21,920,104	21,5[illegible]	21,[illegible]	[illegible]

AVERAGE BALANCES AND INTEREST RATES (TAXABLE EQUIVALENT BASIS)

Central Fidelity Banks, Inc. and Subsidiaries

(In thousands) For the three months ended June 30,	1992			1991		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets:						
Loans:						
Commercial and commercial real estate	$1,522,218	$ 32,510	8.59%	$1,585,492	$ 39,625	10.02%
Construction	446,942	8,201	7.38	517,856	12,139	9.40
Residential real estate	362,977	9,139	10.13	210,855	6,388	12.15
Installment	747,763	19,913	10.71	728,964	20,665	11.37
Bank card	594,000	20,479	13.87	569,506	21,585	15.20
	3,673,900	90,242	9.88	3,612,671	100,402	11.15
Investment securities						
U.S. Government and agencies	1,249,082	24,127	7.77	1,330,615	29,248	8.82
States and political subdivisions	195,435	4,222	8.64	218,101	5,247	9.62
Other	316,326	5,567	7.08	277,796	6,148	8.88
	1,760,841	33,916	7.75	1,826,510	40,643	8.93
Securities available for sale	1,023,290	19,738	7.76	—	—	—
Money market investments	100,182	995	3.99	201,267	3,211	6.40
Trading account securities	808	14	6.97	2,186	39	7.20
Total interest-earning assets	6,559,021	$144,905	8.89%	5,642,634	$144,295	10.26%
Noninterest-earning assets:						
Cash and due from banks	214,530			203,549		
Premises and equipment, net	138,092			138,280		
Other assets	189,752			132,751		
Allowance for loan losses	(81,300)			(62,340)		
Total assets	$7,020,095			$6,054,874		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities						
Interest checking	$ 479,598	$ 3,960	3.32%	$ 380,890	$ 4,141	4.36%
Regular savings	501,053	5,031	4.04	362,560	4,440	4.91
Consumer certificates	2,421,812	37,329	6.20	2,220,036	42,128	7.61
Money market accounts	1,177,469	11,010	3.76	899,819	12,310	5.49
Certificates of deposit $100,000 and over	334,509	4,630	5.57	382,939	6,283	6.58
Federal funds purchased and repos	878,873	7,789	3.56	732,068	10,353	5.67
Other short-term borrowings	27,012	228	3.39	35,408	454	5.15
Long term debt	12,558	385	12.24	10,027	506	12.20
Capitalized lease obligations	9,814	215	8.76	10,562	229	8.67
Total interest-bearing liabilities	5,842,698	$ 70,573	4.86%	5,040,909	$ 80,844	6.43%
Noninterest-bearing liabilities						
Demand deposits	701,266			585,493		
Other	25,768			27,108		
Total noninterest-bearing liabilities	727,034			612,601		
Shareholders' equity	450,363			401,364		
Total liabilities and shareholders' equity	$7,020,095			$6,054,874		
Net interest earnings		$ 74,332			$ 63,451	
Net interest spread			4.03%			3.83%
Net interest margin			4.56%			4.51%

AVERAGE BALANCES AND INTEREST RATES (TAXABLE EQUIVALENT BASIS)

Central Fidelity Banks, Inc. and Subsidiaries

(In thousands) For the six months ended June 30,	1992			1991		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets						
Interest-earning assets						
Loans:						
Commercial and commercial real estate	$1,522,754	$ 65,632	8.67%	$1,579,745	$ 79,462	10.14%
Construction	457,702	17,060	7.50	518,210	24,731	9.62
Residential real estate	321,772	16,548	10.34	195,762	11,884	12.24
Installment	743,236	40,209	10.88	732,059	41,610	11.46
Bank card	597,181	41,574	14.00	567,013	43,189	15.36
	3,642,645	181,023	9.99	3,592,789	200,876	11.27
Investment securities:						
U.S. Government and agencies	1,011,720	39,931	7.94	1,215,904	54,113	8.97
States and political subdivisions	199,264	8,813	8.85	221,130	10,772	9.74
Other	250,902	9,044	7.25	265,247	11,655	8.86
	1,461,886	57,788	7.95	1,702,281	76,540	9.07
Securities available for sale	1,104,134	43,664	7.95	3,568	138	7.78
Money market investments	109,348	2,288	4.21	195,480	6,776	6.99
Trading account securities	997	39	7.86	5,375	198	7.42
Total interest-earning assets	6,319,010	$284,802	9.06%	5,499,493	$284,528	10.43%
Noninterest-earning assets:						
Cash and due from banks	220,588			196,469		
Premises and equipment, net	138,126			137,916		
Other assets	189,624			135,032		
Allowance for loan losses	(81,300)			(62,340)		
Total assets	$6,786,048			$5,906,570		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities						
Interest checking	$ 468,564	$ 8,263	3.55%	$ 370,557	$ 8,017	4.36%
Regular savings	459,254	9,396	4.11	354,955	8,045	4.91
Consumer certificates	2,416,388	77,012	6.41	2,153,804	82,500	7.72
Money market accounts	1,121,338	21,967	3.94	903,891	25,794	5.75
Certificates of deposit $100,000 and over	316,151	8,806	5.60	358,334	12,484	7.03
Federal funds purchased and repos	803,617	14,583	3.65	702,849	20,794	5.07
Other short-term borrowings	28,420	494	3.50	35,742	1,150	6.52
Long-term debt	12,563	765	12.24	10,650	1,015	12.41
Capitalized lease obligations	9,911	431	8.75	10,571	455	8.67
Total interest-bearing liabilities	5,636,206	$141,717	5.06%	4,907,444	$160,656	6.61%
Noninterest-bearing liabilities						
Demand deposits	673,713			560,268		
Other	32,821			47,066		
Total noninterest-bearing liabilities	706,534			607,334		
Shareholders' equity	443,308			[illegible]		
Total liabilities and shareholders' equity	$6,786,048			$5,906,570		
Net interest earnings		$143,085			[illegible]	
Net interest spread			4.00%			3.82%
Net interest margin			4.55%			[illegible]

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

Central Fidelity Banks, Inc. and Subsidiaries

(In thousands) For the six months ended June 30, 1991	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' Equity
Balance at beginning of period	14,555	$ 71,676	$55,390	$254,517	$381,583
Net income	—	—	—	29,895	29,895
Common stock issued for					
Exercise of stock options	25	115	200	—	315
Dividend Reinvestment Plans	25	113	555	—	668
Stock & Thrift Plan	32	160	805	—	965
Common stock purchased	(25)	(115)	(448)	—	(563)
Cash dividends declared on common stock	—	—	—	(11,475)	(11,475)
Change in valuation allowance for marketable equity securities	—	—	—	4,255	4,255
Common stock issued for 3-for-2 stock split	7,181	35,904	—	(35,980)	(76)
Balance at end of period	21,571	$107,855	$56,500	$241,212	$405,567

For the six months ended June 30, 1992	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' Equity
Balance at beginning of period	21,811	$109,055	$60,791	$259,579	$429,425
Net income	—	—	—	35,616	35,616
Common stock issued for:					
Exercise of stock options	49	241	661	—	902
Dividend Reinvestment Plan	39	199	1,291	—	1,490
Stock & Thrift Plan	47	237	1,506	—	1,743
Cash dividends declared on common stock	—	—	—	(12,929)	(12,929)
Balance at end of period	21,946	$109,730	$64,249	$282,266	$456,245

INTEREST SENSITIVITY ANALYSIS

(In thousands) June 30, 1992	Total 1-90 Day Sensitivity	Total 1-180 Day Sensitivity	Total 1-360 Day Sensitivity	Total 1-540 Day Sensitivity
Interest sensitivity gap	$(681,406)	$(948,924)	$(1,184,564)	$(1,248,920)
Interest sensitivity gap as a percentage of earning assets	(10.50)%	(14.54)%	(17.88)%	(18.87)%
Ratio of interest sensitive assets to interest sensitive liabilities	71%	66%	63%	66%

SELECTED LOAN LOSS DATA

Central Fidelity Banks, Inc. and Subsidiaries

(In thousands)	For the three months ended June 30, 1992	For the three months ended June 30, 1991	For the six months ended June 30, 1992	For the six months ended June 30, 1991
Balance at beginning of period	$ 69,500	$ 62,330	$ 61,000	$ 60,806
Provision charged to expense	33,564	8,700	48,747	17,700
	103,064	71,030	109,747	78,506
Loans charged off:				
Commercial and commercial real estate	6,378	4,701	8,727	7,939
Construction	12,214	576	12,527	1,232
Installment	1,529	1,485	2,973	2,961
Bank card	4,259	4,072	8,617	7,379
Total charge-offs	24,380	10,834	32,844	19,511
Recoveries of loans previously charged off				
Commercial and commercial real estate	382	1,039	794	1,284
Construction	986	—	1,098	—
Residential real estate	—	1	—	1
Installment	678	536	1,324	977
Bank card	570	568	1,181	1,083
Total recoveries	2,616	2,144	4,397	3,345
Net charge-offs	21,764	8,690	28,447	16,166
Balance at end of period	$ 81,300	$ 62,340	$ 81,300	$ 62,340
Average loans	$3,673,900	$3,612,671	$3,642,645	$3,592,789
Loans at period-end	$3,726,385	$3,668,674	$3,726,385	$3,668,674
Ratio of provision for loan losses to average loans	3.65%	.96%	2.68%	.99%
Ratio of net charge-offs to average loans	2.37%	.96%	1.56%	.90%
Ratio of allowance for loan losses to loans at period end	2.18%	1.70%	2.18%	1.70%

DISTRIBUTION OF LOAN PORTFOLIO AND NONPERFORMING ASSETS BY REGION

Central Fidelity Banks, Inc. and Subsidiaries

(In thousands) June 30, 1992	Capital Region	Eastern Region	Northern Region	Western Region	Southwestern Region	Consolidated
Loan Portfolio						
Commercial and commercial real estate	$236,418	$606,029	$234,862	$268,103	$202,953	$1,548,365
Construction	61,617	99,460	180,273	44,853	28,071	414,274
Residential real estate	52,980	52,098	74,219	180,512	57,052	416,861
Consumer second mortgage	61,022	73,872	62,663	161,808	36,112	395,477
Installment	163,401	75,683	19,885	204,808	80,136	543,913
Bank card	191,982	62,999	82,217	59,476	10,821	407,495
Loans*	$767,420	$970,141	$654,119	$919,560	$415,145	$3,726,385
Nonperforming Assets						
Nonaccrual loans						
Land acquisition and development						
Commercial	$ —	$ 91	$ 6,406	$ —	$ 29	$ 6,526
Residential	3,215	—	33,074	—	—	36,289
Residential real estate	19	1,431	143	478	622	2,693
Commercial real estate	—	339	2,278	—	—	2,617
Commercial and industrial	1,335	5,436	23,512	1,835	5,010	37,128
Nonaccrual loans	4,569	7,297	65,413	2,313	5,661	85,253
Foreclosed properties						
Land acquisition and development						
Commercial	2,103	600	—	100	—	2,803
Residential	2,073	80	4,282	—	—	6,435
Residential real estate	—	1,555	6,666	—	—	8,221
Commercial real estate	2,501	3,865	4,247	—	—	10,613
Other	101	1,420	549	197	633	2,900
Foreclosed properties	6,778	7,520	15,744	297	633	30,972
Nonperforming assets	$ 11,347	$ 14,817	$ 81,157	$ 2,610	$ 6,294	$ 116,225
Ratio of nonperforming assets to loans and foreclosed properties	1.47%	1.52%	12.12%	.28%	1.51%	3.09%

Includes nonaccrual loans

CENTRAL FIDELITY BANKS, INC.

Executive Officers

Carroll L. Saine
Chairman of the Board and
Chief Executive Officer

Lewis N. Miller, Jr.
President

William F. Shumadine, Jr.
President
Central Fidelity Bank

Philip G. Hug
Corporate Executive Vice President

John T. Percy, Jr.
Corporate Executive Vice President

Deborah J. Brooks
Corporate Executive Officer

James W. Koeniger
Corporate Executive Officer

Jay O. Livingston
Corporate Executive Officer

Maryann Mauer
Corporate Executive Officer

William H. Pruitt
Corporate Executive Officer

Jane D. Smith
Corporate Executive Officer

Kenneth W. Farmer
President, Eastern Region

Rodger W. Fauber
President, Western Region

J. Carson Quarles
President, Southwestern Region

John L. Van Horn, II
President, Northern Region

CENTRAL FIDELITY BANKS, INC.

Board of Directors

James F. Betts
Management Consultant

Alvin R. Clements
Former Chairman of the Board
Central Fidelity Banks, Inc.

Robert C. Dawson
Former Chairman of the Board
Lawyers Title Insurance
Corporation

Pauline Allen Ellison
Consultant

Jack H. Ferguson
President and Chief
Executive Officer
So-Deep, Inc.

Robert L. Freeman
Retired Certified
Public Accountant

Thomas R. Glass
Vice President and Publisher
Emeritus
Carter Glass Newspapers, Inc.

Mannie Bassett Lane
Civic Leader

George R. Lewis
Vice President and Treasurer
Philip Morris Companies Inc.

G. Bruce Miller
President and Chief
Executive Officer
International Home
Furnishings Center

Lewis N. Miller, Jr.
President
Central Fidelity Banks, Inc.

T. Justin Moore, Jr.
Counsel to Hunton & Williams
Former Chairman of the Board
Dominion Resources, Inc. and
Virginia Power

Richard L. Morrill
President
University of Richmond

Lloyd U. Noland, III
Chairman of the Board and
President
Noland Company

William G. Reynolds, Jr.
Vice President—Government
Relations and Public Affairs
Reynolds Metals Company

Carroll L. Saine
Chairman of the Board and
Chief Executive Officer
Central Fidelity Banks, Inc.

William F. Shumadine, Jr.
President
Central Fidelity Bank

Kenneth S. White
Attorney
Edmunds & Williams

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter ended March 31, 1992   Commission File No. 0-16992

CONCORDE CAREER COLLEGES, INC.
(exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction of Incorporation or Organization)

43-1440321
(I. R. S. Employer Identification Number)

10th Floor, City Center Square
12th & Baltimore, P. O. Box 26610
Kansas City, Missouri
(Address of Principal Executive Office)

64196
(Zip Code)

Registrant's telephone number, including are code: (816) 474-4750

Securities registered pursuant to Section 12(g) of the Act:

Common Stock $.10 Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes X No ____   (2) Yes X No ____

As of May 7, 1992, ConCorde Career Colleges, Inc. had 6,952,176 shares of Common Stock outstanding, with a market value of $3,476,000.

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PART I - FINANCIAL INFORMATION

CONCORDE CAREER COLLEGES, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 1992 and DECEMBER 31, 1991

ASSETS

	March 31, 1992	December 31, 1991
CURRENT ASSETS:		
Cash	$ 267,000	$ 833,000
Refundable income taxes	1,200,000	1,490,000
Net receivables		
Accounts receivable	17,197,000	17,446,000
Notes receivable for student tuition	4,554,000	2,960,000
Allowance for uncollectible accounts	(4,527,000)	(3,331,000)
	17,224,000	17,075,000
Supplies, prepaid expenses and other current assets	1,353,000	1,422,000
Total current assets	20,044,000	20,820,000
Net assets of home study school	----	7,223,000
Allowance for loss on disposition	----	(7,223,000)
	----	----
PROPERTY AND EQUIPMENT, AT COST:		
Furniture and equipment	8,973,000	8,562,000
Leasehold improvements	3,304,000	3,274,000
Building and land	699,000	699,000
	12,976,000	12,535,000
Less-accumulated, depreciation and amortization	(6,343,000)	(6,067,000)
	6,633,000	6,468,000
COST IN EXCESS OF NET TANGIBLE ASSETS, less accumulated amortization of $2,949,000 at March 31 and $2,859,000 at December 31, respectively	3,731,000	4,054,000
OTHER ASSETS:		
Long-term notes receivable for student tuition	17,960,000	15,929,000
Allowance for uncollectible accounts	(3,367,000)	(3,126,000)
Other	607,000	617,000
Total other assets	15,200,000	13,420,000
	$45,608,000	$44,762,000

CONCORDE CAREER COLLEGES, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 1992 and DECEMBER 31, 1991

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 1992	December 31, 1991
CURRENT LIABILITIES:		
Deferred student tuition	$15,810,000	$14,384,000
Current maturities of long-term debt	8,214,000	----
Accounts payable	1,282,000	1,455,000
Accrued salaries and wages	1,151,000	1,006,000
Other accrued liabilities	1,120,000	1,818,000
Total current liabilities	27,577,000	18,663,000
LONG-TERM DEBT	5,480,000	13,818,000
DEFERRED INCOME TAXES	921,000	987,000
STOCKHOLDERS' EQUITY		
Common stock	698,000	698,000
Capital in excess of par	5,158,000	5,158,000
Retained earnings	5,835,000	5,499,000
Treasury stock, at cost	(61,000)	(61,000)
Total stockholders' equity	11,630,000	11,294,000
	$45,608,000	$44,762,000

CONCORDE CAREER COLLEGES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 1992 and 1991

	Quarter Ended March 31, (Unaudited)	
	1992	1991
REVENUE:		
Resident schools	$11,267,000	$10,714,000
Home study	----	1,201,000
CPA review courses	1,105,000	1,085,000
Total revenue	12,372,000	13,000,000
OPERATING EXPENSES:		
Payroll costs	4,435,000	4,337,000
Occupancy	1,794,000	1,608,000
Instructional materials and supplies	1,334,000	1,337,000
Advertising	947,000	1,005,000
Other general and administrative	1,347,000	1,168,000
Provision for uncollectible accounts	1,618,000	944,000
Total operating expenses	11,475,000	10,399,000
OPERATING INCOME	897,000	2,601,000
INTEREST AND DEBT EXPENSE	336,000	331,000
INCOME BEFORE INCOME TAXES	561,000	2,270,000
PROVISION FOR INCOME TAXES	225,000	964,000
NET INCOME	$ 336,000	$1,306,000
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	6,952,176	6,952,176
EARNINGS PER WEIGHTED AVERAGE COMMON SHARE	$0.05	$0.19
CASH DIVIDENDS PER COMMON SHARE	$ -0-	$ -0-

CONCORDE CAREER COLLEGES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 1992 and 1991
(Unaudited)

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 336,000	$1,306,000
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	390,000	555,000
Provision for losses on accounts receivable	1,618,000	944,000
Change in assets and liabilities, net of effect from acquisitions -		
Decrease in refundable income taxes	290,000	608,000
Increase in accounts receivable	(3,558,000)	(5,135,000)
Increase in deferred student tuition	1,426,000	1,288,000
Increase in deferred revenue-other	----	459,000
Other changes in assets and liabilities, net	(464,000)	(464,000)
Increase (decrease) in deferred income taxes	(66,000)	27,000
Total adjustments	(364,000)	(1,718,000)
Net cash used in operating activities	(28,000)	(412,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(447,000)	(732,000)
Net cash used in investing activities	(447,000)	(732,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in notes payable	----	1,850,000
Principal payments on long-term debt	(562,000)	(368,000)
Net change in revolving credit agreement	471,000	–
Net cash provided by (used in) financing activities	(91,000)	1,482,000
NET INCREASE (DECREASE) IN CASH	(566,000)	338,000
CASH AT BEGINNING OF PERIOD	833,000	856,000
CASH AT END OF PERIOD	$ 267,000	$ 1,194,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 351,000	$ 126,000
Income taxes	25,000	2,000
Cash received during the period for:		
Interest	90,000	3,000
Income tax refunds	----	18,000

CONCORDE CAREER COLLEGES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 1992

The condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Form 10-K Annual Report for 1991 which was filed by the Company on May 8, 1992.

The information included in these interim financial statements reflect all normal recurring adjustments which are, in the opinion of management, necessary to fairly state the results of the periods presented.

Due to the inherent seasonal nature of the career training business, annualization of amount in these interim financial statements may not necessarily be indicative of the actual operating results for the full year.

SALES OF UNREGISTERED SECURITIES: None

Item 2.) Managements Discussion and Analysis of Financial Condition and Results or Operations

The following table presents the revenue for each category of School, the CPA Review Courses and the Home Study Courses for the periods indicated. Amounts are in thousands.

	Year Ended December 31.			Three Months Ended March 31.	
	1991	1990	1989	1992	1991
Health Vocational & Computer Courses	$43,086	$35,439	$33,533	$10,850	$10,194
Travel Service Courses	1,120	1,086	1,646	196	192
Paralegal Courses	1,199	914	203	221	328
CPA Review Courses	3,138	3,647	3,653	1,105	1,085
Home Study Courses	4,565	5,131	—	0	1,201
Total	$53,108	$46,217	$39,035	$12,372	$13,000

The following table presents the relative percentage of revenues derived from each category of Resident School Courses, the CPA Review Courses and Home Study Courses and certain consolidated statement of earning items as a percentage of total revenue for periods indicated.

	Year Ended December 31.			Three Months Ended March 31.	
	1991	1990	1989	1992	1991
Health Vocational & Computer Courses	81.2	76.7	85.9	87.7	76.8
Travel Service Courses	2.3	2.3	4.2	1.6	2.4
Paralegal Courses	2.1	2.0	0.5	1.8	1.8
CPA Review Courses	5.9	7.9	9.4	8.9	10.5
Home Study Courses	8.5	11.1	—	0.0	8.5
Total	100.0	100.0	100.0	100.0	100.0
Operating expenses:					
Payroll	36.3	35.3	34.7	35.8	33.3
Occupancy	13.3	12.8	14.9	14.5	12.4
Materials and supplies	9.1	8.4	6.9	10.8	10.3
Advertising	8.5	8.5	8.7	7.7	7.7
Other general & administrative	10.7	9.0	8.0	10.9	9.0
Provision for uncollectible accounts	18.7	8.0	6.0	13.1	7.3
Loss on disposition of home study school	13.6	—	—	—	—
Total	110.2	82.0	79.2	92.8	80.0
Operating income	-10.2	18.0	20.8	7.2	20.0
Interest expense	2.3	2.1	2.1	2.7	2.6
Income before income taxes.	-12.5	15.9	18.7	4.5	17.4
Provision for income taxes	-4.0	7.0	8.1	1.8	7.4
Net income	-8.5	8.9	10.6	2.7	10.0

QUARTER ENDED MARCH 31, 1992 COMPARED TO QUARTER ENDED MARCH 31, 1991

Results of Operations

Total revenue decreased 4.8%, or $628,000 to $12,372,000 for the first three months of 1992 compared to $13,000,000 during the same period in 1991. Revenue from the Company's resident schools increased $553,000 or 5.2%, primarily due to an increased number of in house students compared to the same period a year ago. Revenue from the home study operation, SCI, declined by $1,201,000. SCI was disposed of on April 30, 1992 and no revenue was recorded in the current year. Revenue from the CPA Review Course operation increased 1.9% to $1,105,000 compared to $1,085,000, due primarily to price increases.

Total operating expenses, as a percentage of operating revenue, have increased during the first quarter of 1992 compared to the same period in 1991, due primarily to an increase in the Provision for Credit Losses. These operating expenses are discussed below:

Payroll - Increased by $98,000 as compared to the same period a year earlier. This was a nominal increase of 2.2%. The Company believes that payroll costs will continue to increase in the future as the Company continues to hire more and better qualified personnel.

Occupancy - Increased 11.6% from $1,608,000 to $1,794,000, primarily due to increases in insurance costs and facility rentals.

General and Administrative - Increased by $179,000, a 15.3% increase. The two items which contributed to the increase were professional fees and costs associated with the disposition of SCI. The increase in professional fees is due primarily to increased utilization of legal and finance related firms, which reflects the continuing uncertainty within the industry relating to increasing government regulation.

Provision for Credit Losses - As previously discussed, the Company has increased the provision due to financing a substantial portion of student tuition through promissory notes receivable because the Company is without student loan lenders in eight of its residence schools. Management cannot predict whether lenders will be available in the future, but believes that the Provision for Credit Losses will remain at relatively high levels for the near term. The provision increased by $674,000 for the quarter ended March 31, 1992, compared to the same period for 1991, a 71.4% increase.

Provision for Income Taxes - The effective income tax rate for the three months ended March 31, 1992 was 40.1% compared to 42.5% for 1991. The disposal of SCI and state income taxes account for the difference between the effective and statutory tax rate.

Liquidity and Capital Resources

CenCor is currently experiencing liquidity problems which may affect its ability to meet the principal and interest payments on outstanding subordinated debt. Since CenCor is the primary obligor on the subordinated debt assumed by the Company, and if CenCor defaults on any of its subordinated debt, such debt will likely be accelerated. Since ConCorde is currently unable to meet these debt payments if they were to all become due immediately, the Company, as well as CenCor, may have to seek protection from creditors under the Bankruptcy Code.

The Company will continue to actively seek alternative methods for its financing and capitalization, including the possible sale or merger of the Company. Management recently engaged an investment banking firm to review the possible sale of the Company.

After January 1, 1991, the Secretary of the Department of Education (DOE) (the Secretary) may initiate proceedings to limit, suspend or terminate ("LS&T") the eligibility of a school to participate in the guaranteed student loan programs if (i) the default rate on loans for students attending the school is in excess of 60% for the 1990 fiscal year (declining 5% a year to 40% in the 1994 fiscal year) or (ii) for any fiscal year subsequent to 1990, the school has a default rate in excess of 40%, which rate was not reduced by an increment of at least 5% from the preceding year's rate. A school may successfully defend a LS&T proceeding by showing that it has made a diligent effort to implement certain measures recommended in the regulations to address causes of default.

Data is not currently available for the Company to be able to determine the default rates of its Schools for fiscal years after 1989. However, based on COHORT default rates published by the DOE for fiscal year 1989, the Company has six schools with a default rate above 40%, seven Schools with a default rate between 30% and 39%, six Schools with a default rate between 20% and 29% and one School with a default rate below 20%. Although continuation or escalation of such default rates could subject certain Schools to certain of the requirements or sanctions described above, the Company intends to take all measures necessary to enable it to successfully defend any LS&T proceedings which could be brought against any School having default rates exceeding 40%. To date, no proceedings by the Secretary have taken place in connection with any of the Company's Schools.

In light of the many factors surrounding the vocational school industry and the specific events which have directly affected the Company, management has recently developed a strategy which it believes will enhance the Company's position as a viable provider of proprietary vocational training.

Management is aware that the Company will not be successful over the long-term unless its largest schools (in terms of number of students) are able to participate in the guaranteed student loan program. Therefore, management will closely scrutinize the operations and cash flow of its schools currently without lenders and may either close or merge certain schools. Current plans include the merging of the Company's two schools in San Diego, California, which will reduce administrative and operating costs. Additionally, the Company intends to close its school in south Houston due to a pending leasing termination, the lack of a guaranteed student loan lender and negative cash flow.

The Company has also implemented a comprehensive cash flow improvement program. Some of the major aspects of this plan are summarized below:

1. Increase emphasis on gaining access to the lender of last resort in certain states where access is feasible;

2. Commence relationships with other lender guarantee agencies which may assist in securing actual lending banks;

3. Enhance the quality of students attending the schools by increasing emphasis on credit worthiness, raising the minimum entrance test scores and requiring increased payments on promissory notes receivable while attending school;

4. Increase emphasis on student retention and placement;

5. Reduce capital expenditures and other operating expenses where practicable without affecting the quality of the education being provided; and

6. Continue to significantly improve the management information and related operating systems which will provide enhanced efficiencies and improved internal control.

Management believes that this overall strategy will positively affect the operation of the Company. However, the Company cannot predict events which may occur in the future, such as further government regulation and/or changes in the student lending climate, which may cause management to change its strategy.

Inflation and General Economic Conditions

Inflation has not been significant factor to the Company due to the moderate levels of inflation over the past several years. The Company does not foresee any detrimental effects from inflation as long as the inflation rate remains at a normal level. If the rate of inflation increases above the current level, the Company believes it will be able to pass along higher costs through increased tuition rates.

The recent economic recession and the associated high unemployment has helped to increase student enrollments at the Company's resident schools. Historically, these conditions have a positive impact on vocational schools. However, the Company cannot predict whether these conditions will have a positive impact in the future.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company's Schools are sued from time to time by students who are dissatisfied with the results of their course of study. Typically, the claims are based on breach of contract, deceptive advertising and misrepresentation and the students seek reimbursement of tuition. Punitive damages sometimes are also sought. The Company carries liability insurance covering such claims for most of the Schools (subject to certain limitations), with an aggregate limit of $1,000,000 but in several states, statutes do not allow coverage for punitive damages.

Two lawsuits have been filed in the Circuit Court of the State of Oregon for the County of Multnomah, one in June of 1989 on behalf of nine former students and the other in July 1989 on behalf of two former students and a third lawsuit has been filed in The United States District Court for the Western District of Tennessee in May 1990 on behalf of seven former students. These suits allege violations with the students' course of study at the Company's Schools and ask for punitive damages.

The suit instituted in June of 1989 names Computer Career Institute, Inc. ("CCI"), one of the Company's subsidiaries, as defendant and prays for damages in the amount of $77,900 for tuition and lost earnings, plus punitive damages and attorney's fees. On July 21, 1990 a jury verdict in the amount of $323,000, including $170,000 in punitive damages, plus plaintiff's attorney's fees was awarded against CCI in this suit. CCI has appealed this judgment. The Company is of the belief that the award of punitive damages is without merit and the jury award excessive.

The second suit instituted in July 1989 resulted in a judgment against CCI which was satisfied by the Company in April, 1992. The damages alleged in the third suit are, as yet, unspecified. The third suit is still in the pretrial stage. The Company believes that this suit is without merit and intends to defend against it vigorously.

A former landlord brought suit against the Company on August 16, 1990 in the Circuit Court of the thirteenth Judicial Circuit in Hillsborough County, Florida, in a suit styled Renan Investments, Ltd., etal verses ConCorde Career Colleges, Inc. etal (Case No. 90-18365 Div. P). This lawsuit alleges a breach of lease for the non-payment of certain operating expenses, repayment of back rent and a six month early cancellation charge of $70,000. In its defense, the Company has claimed that it was constructively evicted from the premises and that all operating expenses were not justified. Trial is scheduled for May 18, 1992 and the Company intends to vigorously defend the suit.

Item 2.) Change in Securities - None

Item 3.) Defaults Upon Senior Securities - None

Item 4.) Submission of Matters to a Vote of Security Holders - None

Item 5.) Other Materially Important Events - None

Item 6.) Exhibits and Reports on Form 8-K - None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONCORDE CAREER COLLEGES, INC.

DATED: May 13, 1992

By: J. Brozman

Jack L. Brozman, President

By: Paul J. Vadovicky

Paul J. Vadovicky, Vice President-Finance

[redacted]

MANUALLY SIGNED

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

TERLY REPORT UNDER SECTION 13 OR 15(d)
HE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 1991

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO ___________

Commission File Number 0-17741

Epolin, Inc. [NJ]
(Exact name of Registrant as specified in its charter)

New Jersey	22-2547226
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

358-364 Adams Street, Newark, New Jersey 07105
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (201) 465-9495

39 McBride Avenue, Paterson, New Jersey
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ______

As of the close of business on November 30, 1991 there were 10,304,000 of the Registrant's no par value shares of outstanding Common Stock.

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FORM 10-Q

PART I. FINANCIAL INFORMATION

Company or Group or Companies for which report is filed:

Epolin, Inc. and its wholly owned subsidiary Accort Labs, Inc.

EPOLIN, INC. AND SUBSIDIARY

NOVEMBER 30, 1991

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I. WEISMANN ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Roxbury Corporate Center
100 Sheri Court
Mt. Arlington, NJ 07856
(201) 770-1900

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
EPOLIN, INC. AND SUBSIDIARY

We have reviewed the consolidated balance sheets of Epolin, Inc. and Subsidiary as of November 30, 1991 and 1990 and the related consolidated statements of operations, stockholders' equity and cash flows for the nine months ended November 30, 1991 and 1990 in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial statements consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

As shown in the financial statements, the Company incurred a net loss of $374,571 for the nine months ended November 30, 1991 and has incurred substantial net losses for each of the past five years. At November 30, 1991 current liabilities exceed current assets by $144,809. These factors and others discussed in Note 2, indicated that the Company may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary in the event the company cannot continue in existence.

We have not audited the balance sheet of Epolin, Inc. and Subsidiary as of February 28, 1991. We expressed a qualified opinion in our report dated April 25, 1991. We have not performed any auditing procedures since that date.

CERTIFIED PUBLIC ACCOUNTANTS

Mt. Arlington, New Jersey
January 10, 1992

EPOLIN, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	November 30,		February 28,
	1991	1990	1991
Current assets:			
Cash and cash equivalents	$ 62,164	$ 284,937	$ 297,248
Accounts receivable	52,212	90,583	97,473
Inventory (Note 3)	7,215	28,974	25,170
Prepaid expenses	15,822	11,126	18,578
Total current assets	137,413	415,620	438,469
Property, plant and equipment - at cost (Note 3):			
Machinery and equipment	165,074	162,691	164,447
Furniture and fixtures	21,070	21,070	21,070
Leasehold improvements	415,526	415,526	415,526
Total	601,670	599,287	601,043
Less: Accumulated depreciation and amortization	154,212	86,142	102,127
Net depreciated cost	447,458	513,145	498,916
Deferred patent expense	17,732	10,690	11,241
Patents, net of accumulated amortization of $1,540, $986 and $1,125 at November 30, 1991, 1990 and February 28, 1991 (Note 3)	7,867	8,421	8,282
Security deposits	12,635	12,635	12,635
Total other assets	38,234	31,746	32,158
Total	$ 623,105	$ 960,511	$ 969,543

EPOLIN, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	November 30,		February 28,
	1991	1990	1991
Current liabilities			
Accounts payable	$ 42,347	$ 47,716	$ 50,799
Accrued expenses	162,450	106,500	125,750
Accrued salaries (Note 9)	71,250	52,083	70,833
Taxes payable			
Payroll	401	719	921
Income	24	550	36
Loans payable:			
Officers	3,250	3,250	3,250
Others (Note 4)	2,500	2,500	2,500
Total current liabilites	282,222	213,318	254,089
Commitments and contingency (Note 7)			
Stockholders' equity (Notes 5 and 7):			
Preferred stock $2.50 par value; authorized 940,000 shares; none issued			
Series A convertible noncumulative preferred stock $15.513 par value; redemption price, and liquidation preference; 60,000 shares authorized; 5,478 shares issued and redeemed (Note 5)			
Common stock, no par value, authorized 20,000,000 shares; 10,304,000 issued and outstanding	2,162,984	2,162,984	2,162,984
Additional paid-in capital	6,486	6,486	6,486
Accumulated deficit	(1,828,587)	(1,422,277)	(1,454,016)
Total stockholders' equity	340,883	747,193	715,454
Total	$ 623,105	$ 960,511	$ 969,543

EPOLIN, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended November 30,		Nine Months Ended November 30,	
	1991	1990	1991	1990
Revenues:				
Sales	$ 74,186	$ 162,843	$ 259,880	$ 416,679
Research and development grants and contracts (Note 7)	6,513	-	37,022	84,893
Total	80,699	162,843	296,902	501,572
Costs and expenses (Note 10):				
Cost of revenues	100,731	116,881	368,665	394,606
Royalty expense	12,500	12,500	37,500	37,500
Selling, general and administrative expense (Note 7)	98,879	143,780	272,929	419,761
Total	212,110	273,161	679,094	851,867
Loss from operations	(131,411)	(110,318)	(382,192)	(350,295)
Other income - principally interest	1,608	4,874	7,698	19,397
Loss before taxes	(129,803)	(105,444)	(374,494)	(330,898)
State income tax	-	(347)	(123)	278
Net loss	$ (129,803)	$ (105,791)	$ (374,617)	$ (331,176)
Weighted average number of shares of common stock outstanding	10,304,000	10,304,000	10,304,000	10,304,000
Per share data - net loss per common share	(.01)	(.01)	(.04)	(.03)

I WEISMANN ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

EPOLIN, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in-Capital	Accumulated Deficit	Stockholders' Equity
ance - March 1, 1990	$2,162,984	$ 6,486	$(1,091,101)	$1,078,369
loss - Nine months ended November 30, 1990	-	-	(331,176)	(331,176)
ance - November 30, 1990	$2,162,984	$ 6,486	$(1,422,277)	$ 747,193
ance - March 1, 1991	$2,162,984	$ 6,486	$(1,454,016)	$ 715,454
loss - Nine months ended November 30, 1991	-	-	(374,571)	(374,571)
ance - November 30, 1991	$2,162,984	$ 6,486	$(1,828,587)	$ 340,883

EPOLIN, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended November 30,	
	1991	1990
Cash flows from operating activities:		
Net loss	$ (374,571)	$ (331,176)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	52,501	47,891
Changes in assets and liabilities:		
Accounts receivable	45,261	(13,899)
Inventory	17,955	11,702
Prepaid expenses	2,756	2,324
Accounts payable	(8,452)	11,840
Accrued expenses	36,700	26,000
Accrued salaries	417	52,083
Payroll taxes payable	(520)	(3,041)
Income taxes payable	(12)	500
Net cash used by operating activities	(227,965)	(200,776)
Cash flows from investing activities:		
Deposits	-	2,948
Patents	-	(4,651)
Deferred patent expense	(6,491)	3,331
Payments for equipment and leasehold improvements	(628)	(26,686)
Net cash used by investing activities	(7,119)	(25,058)
Decrease in cash	(235,084)	(225,834)
Cash and cash equivalents:		
Beginning	297,248	510,771
Ending	$ 62,164	$ 284,937
Supplemental schedule of cash flow information:		
State income taxes paid	$ 50	$ 50

EPOLIN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1991

Note 1 - Organization and Basis of Presentation:

Epolin, Inc (Company) was incorporated on May 8, 1984 pursuant to the laws of the State of New Jersey to develop, manufacture and market a class of monomer and polymer formulations with applications in the composition and manufacture of a new type of highly protective and durable materials. The Company's activities during its development stage from May 8, 1984 (inception) through February 28, 1990 had been substantially devoted to developing its principal operations

The Company's wholly-owned subsidiary Accort Labs, Inc. is engaged in the manufacture of specialty chemical products that serve as intermediates and additives used in the adhesive, plastic, aerospace, pharmaceutical, flavors and fragrance industries

Note 2 - Going Concern:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Company as a going concern. However, the Company has sustained substantial operating losses during the current period and in recent years and has used substantial amounts of working capital for its operations. At November 30, 1991, current liabilities exceed current assets by $144,809.

Based upon the foregoing, realization of assets and satisfaction of liabilities is dependent upon the Company securing additional capital, generating additional revenues and reducing operating expenses.

Note 3 - Summary of Significant Accounting Policies:

(A) Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and its subsidiary. Intercompany transactions and balances have been eliminated in consolidation. The consolidation is accounted for as a "pooling of interest" under generally accepted accounting principles. Condensed consolidating financial statements for the three month period ended November 30, 1991 are as follows:

EPOLIN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1991

Note 3 - Summary of Significant Accounting Policies (Continued):

	Epolin	Accort	Consolidated
Loss from operations	(244,147)	(138,045)	(382,192)
Interest income	7,498	-	7,498
Loss before taxes	(236,649)	(138,045)	(374,694)
Income taxes	12	(135)	(123)
Net loss	$ (236,661)	(137,910)	(374,571)

Note: No eliminations were applicable to the consolidation.

(B) Inventory - Consists of raw materials, work in process and finished goods valued at the lower of cost or market under the first-in, first-out method.

(C) Property and Equipment - Stated at cost less accumulated depreciation. Provisions for depreciation are computed on the straight-line and declining balance methods, based upon the estimated useful lives of the assets.

Leasehold Improvements - Depreciation over the lesser of the term of the related lease or the estimated useful lives of the assets.

(D) Patents - Costs are being amortized by use of the straight-line method over a period of seventeen years.

(E) Income Taxes - Investment tax credits are accounted for a reduction of income taxes in the year the tax benefit is realized (the tax "flow through" method) for assets acquired prior to January 1, 1986.

Note 4 - Loans Payable Others:

Includes $2,500 payable to a shareholder.

EPOLIN, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1991

Note 3 - Summary of Significant Accounting Policies (Continued):

CONDENSED CONSOLIDATING BALANCE SHEET

	Epolin	Accort	Eliminations	Consolidated
Current assets	$ 289,873	58,145	(210,605)	137,413
Non-current assets	483,127	36,701	(34,136)	485,692
Total	$ 773,000	94,846	(244,841)	623,105
Current liabilities	$ 270,811	222,016	(210,605)	282,222
Stockholders' equity:				
Common stock	2,162,984	100	(100)	2,162,984
Additional paid-in capital	6,486	6,486	(6,486)	6,486
Accumulated deficit	(1,667,281)	(133,756)	(27,550)	(1,828,587)
Total equity	502,189	(127,170)	(34,136)	340,883
Total	$ 773,000	94,846	(244,741)	623,105

CONSOLIDATING STATEMENT OF OPERATIONS

	Epolin	Accort	Eliminations	Consolidated
Revenues	$ 7,628	289,274	-	296,902
Other revenue	173,266	-	(173,266)	-
Total	180,894	289,274	(173,266)	296,902
Cost and expenses:				
Cost of revenues	53,702	314,963	-	368,665
Royalty expense	37,500	-	-	37,500
Selling, general and administrative	333,839	112,356	(173,266)	272,929
Total	425,041	427,319	(173,266)	679,094

Note 5 - Stockholders' Equity:

In connection with a patent licensing agreement (Note 7), the Company granted options to purchase 4,030 shares of the Company's common stock at $4.6538 per share after giving effect to the subsequent stock splits. The option expired in November 1990 (Note 7) and had not been exercised.

Note 6 - Acquisition:

On April 5, 1989, the Company acquired Accort Labs, Inc. in a business combination accounted for as a pooling of interests. Accort Labs, Inc. became a wholly-owned subsidiary of the Company through the exchange of 896,424 shares of the Company's stock for all of its outstanding stock.

Note 7 - Commitments and Contingency:

Licensing Agreement:

In November 1985, the Company entered into a licensing agreement with one of its stockholders to gain all rights to a patent developed by him expiring in June 2000 and is renewable annually through the expiration date of the patent. Included in its terms is a Company commitment for payment of fixed and percentage royalties, and it grants the stockholder an opinion expiring November 1990 to purchase 4,030 shares of common stock after giving effect to the various stock splits in February 1987, October 1988 and February 1989.

Fixed royalty payments of $50,000, less the amount of any percentage royalty payments made during such license year are due each license year ending November 28.

Beginning in May 1990, the Company postponed payments towards accrued fixed royalties in order to conserve cash. Fixed royalty payable is as follows:

Note 7 - Commitments and Contingency (Continued):

Licensing Agreement (continued):

License Years November 28,	Amount Payable
1989	$ 46,000
1990	50,000
1991	50,000
	$ 146,000

Percentage royalties are based on gross sales by the Company and/or its sublicenses, if any, for each license year:

8% of the first $100,000 of gross sales of the invention.
6% of the next $900,000 of gross sales of the invention.
3% of the next $1,000,000 of gross sales of the invention.
2% of all gross sales of the invention exceeding $2,000,000.

Upon payment of an aggregate of $1,000,000 in percentage and fixed royalties, the percentage royalty will be reduced to 2% of gross sales.

In further consideration of the granting of the license, the Company issued 27,076 shares of common stock to this stockholder after giving effect to all stock splits.

Officers' Salaries:

The Company has employment agreements with five officer/stockholders', four of which commenced upon the successful public offering of the Company's stock, and one on June 30, 1989.

The agreements provide for an aggregate annual compensation of $300,000 to four officer/stockholders for a five-year period and $18,000 to one officer/stockholder for a three-year period.

Effective June 1, 1990, one agreement was modified to base salary plus commission.

The agreements call for the forfeiture of certain common stock previously issued to the officer/stockholders upon the termination of their services prior to the contract dates.

Note 7 - Commitments and Contingency (Continued):

Lease and Related Party Rentals:

In June 1989, the Company relocated to new facilities in Newark, New Jersey under a long-term operating lease agreement expiring in May 1994 with options to renew through May 2004. The minimum annual rental is $74,042 with cost of living adjustments starting after the second year. The Company is responsible for additional costs including real estate taxes.

The minimum annual rentals for the next five years if options to renew are exercised:

Years Ended February 28,	Amount
1992	$ 18,511
1993	74,042
1994	74,042
1995	74,042
1996	55,531

Rental expense charged to operations amounted to $71,050 and $64,308 for the nine months ended November 30, 1991 and 1990, respectively.

Outstanding Warrants and Underwriters' Unit Purchase Option:

On April 5, 1989, a public offering of Company securities was completed. In connection therewith, 2,502,000 warrants were issued with the total units sold. Each warrant entitles the holder to purchase one share of common stock through April 1992 at $1.

The Company issued 41,700 underwriters' unit purchase option in connection with the public offering. If exercised, the units will convert to 500,400 shares of common stock and 250,200 warrants. The options are exercisable for a four-year period commencing twelve months from the date of the offering at $7.20 per unit. Subsequently, the warrants can be exercisable for a four-year period commencing twelve months from the date of the offering at $1.00 per warrant.

Note 7 - Commitments and Contingency (Continued):

The underwriters' unit purchase options are not exercisable, transferable or assignable for a period of one year from the date of the offering, except to the officers of the underwriter and dealers participating in the offering and/or their partners or officers. The underwriters' unit purchase options will contain antidilution provisions for appropriate adjustment of the number of shares subject to the options under certain circumstances. The holders of the underwriters' unit purchase options have no voting, dividend or other rights as shareholders of the Company with respect to shares underlying the underwriters' options until the underwriters' options have been exercised. The Company is obligated to pay the underwriters a warrant solicitation fee in the amount of 10% of the aggregate exercisable price of redeemable warrants exercisable commencing twelve months from the effective date of the offering.

Upon the written request of a majority of the holders of the shares of the Company's common stock and common stock purchase warrants underlying the underwriters' unit purchase option, the Company will register on two separate occasions under the Securities Act of 1933, during the four-year period commencing one year from the date of this Prospectus, the securities issuable upon exercise of the underwriters' unit purchase option and the underwriters' units. The Company will bear the cost of the registration, which could be substantial, and the cost of the second registration will be borne by the holders. The Company has also granted certain "piggy-back" registration rights to holders of the underwriters unit purchase option and underwriters' units.

Long-Term Contract:

On January 14, 1987, the Company entered into a $496,000 long-term research contract with the United States Department of the Air Force which commenced on January 15, 1987 and was scheduled to be completed by June 15, 1989. As of February 28, 1991, the Company recognized research and development billings in the aggregate of $496,000 under this contract, including $24,641 for nine months ended November 30, 1990.

Note 7 - Commitments and Contingency (Continued):

The Company entered into a compensation agreement with a sales agent which terminated April 1990. Pursuant thereto, the sales agent received all noncancellable, nonqualified five year option to purchase 2,000 shares of Epolin's common stock at an exercisable price per share of 50% of the average closing bid and asked price as reported on the NASDAQ system on the day preceding his election to exercise.

During the nine months ended November 30, 1990, the Company paid $8,270 for per diem fees. Management has stated that none of the options were exercised.

Note 8 - Unused Net Operating Loss Carryforwards:

At February 28, 1991, the Company had available unused net operating loss carryforwards of $1,122,000 which may be applied against future federal taxable income expiring in various years through 2004.

Note 9 - Accrued Salaries:

Four officers and one employee of the company have elected to defer a portion of their salaries in order to preserve cash.

Deferred salaries at November 30, 1991 total $71,250 of which $30,417 relates to the current nine month period.

Note 10 - Research and Development:

Included in cost and expenses are expenditures of $164,488 and $225,100 for the nine month periods ended November 30, 1991 and 1990, respectively.

Note 11 - Approximately 73% of current year sales were made to five major customers of which 25% were to one of the four.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operation

In April 1989 the Registrant completed an initial public offering of securities generating net proceeds of approximately $1,950,000. Commencing upon completion of its offering through January 1990 the Company primarily engaged in the renovation of its manufacturing facilities. In February 1990 the Company began to actively market and sell its chemical products. During the three and nine months ended November 30, 1991 the Company generated total revenues in the approximate amount of $80,600 and $297,000 respectively representing a decrease of approximately 44% and 41% respectively over the corresponding periods of the prior year. Management believes that these decreases were primarily attributable to the effect of reduced sales resulting from the general economic downturn.

During the three and nine months ended November 30, 1991 the Company's cost of revenues as a percentage of sales increased by approximately 43% and 47% respectively as compared to the corresponding periods of the prior year primarily as a result of reduced sales, increased cost of raw materials needed for specialty chemical production, increased research and development efforts and higher overhead costs associated with the Company's facility and equipment. During the three and nine months ended November 30, 1991 selling, general and administrative expenses decreased by approximately 20% and 35% respectively as compared to the corresponding periods of the prior year which decreases primarily resulted from lower payroll expenses related to curtailment of the Company's expanding monomer related activities and reduction of specialty chemical production as well as the increased allocation of officer's salaries to specialty chemical research and development products.

During the three and nine months ended November 30, 1991 the Company reported a net loss of approximately $130,000 ($.01 per share) and $374,571 ($.04 per share) respectively, as compared to a net loss of approximately $110,000 ($.01 per share) and $350,295 ($.03 per share) respectively during the corresponding periods of the prior year. The increases in net loss primarily reflect the effect of reduced sales of the Company's chemical products.

Liquidity and Capital Resources

As of November 30, 1991 the Company had a negative working capital position of approximately $145,000 as compared to a positive working capital position of approximately $184,000 for the year ended February 28, 1991. The decrease reflects the continued utilization of cash to fund the Company's loss from operations. To date cash flow generated from operations has been inadequate to meet the Company's operating expenses. In order to preserve the Company's remaining cash position, the Company has suspended further research and development of the Company's Expanding Monomer formulations until such time that orders for such products are received from the entities which are currently evaluating such products. In addition the Company has reduced its specialty chemical operations as a result of a lack of orders. In this regard the Company has significantly reduced its labor force and as of March 1992 the Company will employ only three employees on a full time. For the year ended February 28, 1991 the Company's officers agreed to defer a portion of their respective salaries in order to preserve cash flow. During the year ended February 28,1991 accrued officers salaries aggregated $ 70,833.

As of February 1, 1992 the Company had approximately $65,000 in cash and cash equivalents. The Company estimates that available cash coupled with projected revenues from sale of the Company's products may be sufficient to fund the Company's operations for the next three months only. Moreover, should revenues fail to meet projections, the Company's ability to continue its operations will be adversely effected. In the event the Company's operations do not improve or additional capital is not obtained, the Company will be forced to further curtail and/or halt the future conduct of its business.

The Company is investigating potential merger candidates for the purposes of selling a controlling interest in the Company. However there can be no assurance that the Company will be successful in this regard.

The Company does not anticipate making any significant additional capital expenditures in the immediate future as it believes that its present machinery and equipment will be sufficient to meet its near term needs.

ITEM 5. OTHER INFORMATION

In January 1991 Team Logos Corporation ("Team Logos") terminated future discussions regarding the proposed reorganization transaction between Team Logos and the Registrant. In December 1991, the Registrant announced the execution of a letter of intent with Team Logos pursuant to which Team Logos's shareholders were to become the owners of 90% of Epolin's issued and outstanding Common Stock. Team Logos cited its inability to furnish audited financial statements needed to proceed with the transactions as its primary reason for terminating the arrangement.

The Registrant is currently engaged in discussions with S.D.S. Corp., a Florida based company engaged in the special package delivery industry and Guaranteed Tuneup Corp., a New Jersey based company engaged in the franchising of automotive service centers with respect to the possible merger of one of such companies into the Registrant. The Registrant has also discussed merger possibilities with other companies in order to meet NASDAQ maintenance requirements and further benefit the Registrant's shareholders. The foregoing discussions have been preliminary ones and no assurance can be given that they will result in a consumated transaction or allow the Registrant's securities to remain listed on the NASDAQ system.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8K

(a) Exhibits

(b) Reports on Form 8K

During the quarter ended November 30, 1991 the Company did not file any reports on Form 8K. In March 1992 The Registrant filed a Current Report on Form 8K reporting in Item 5 thereof the extension of the expiration date of its Common Stock Purchase Warrants.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: March 13 , 1992

EPOLIN, INC.

MORTON LEFAR, Principal
Financial Accounting Officer and
Member of the Board

EPOLIN/REPTS/10Q11-91\RW

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FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM F-4

UNDER SECTION 13 OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR
THE QUARTER ENDED JUNE 30, 1992

FDIC Insurance Certificate No. 28038

FIDELITY SAVINGS BANK
(Exact name of bank as specified in its charter)

1009 Perry Highway, Pittsburgh, Pennsylvania 15237
(Address of principal executive offices)

Pennsylvania
(State or other jurisdiction of incorporation or organization)

25-0846179
(IRS Employer identification No.)

(412) 367-3300
(Bank's telephone number, including area code)

Indicate the number of shares outstanding of each of the bank's classes of common stock, as of the latest practicable date:

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: Common Stock, par value $1.00 per share.

Number of shares outstanding at June 30, 1992: 1,097,699

Indicate by check mark whether the Bank (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Bank was required to file such reports): Yes X No ____ and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

The Bank has been subject to filing requirements since June 24, 1988 and has filed all reports that have been required since that date.

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FIDELITY SAVINGS BANK

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Part 1 - Financial Information

FIDELITY SAVINGS BANK
Statements of Financial Condition

Assets	September 30, 1991	June 30, 1992 (Unaudited)
Cash and amounts due from depository institutions	$ 2,618,479	$ 3,247,541
Interest-earning deposits with other institutions:		
Demand deposits	3,860,386	3,279,284
Certificates of deposit	11,082,000	4,554,000
Investment securities	18,961,407	55,894,887
Loans receivable, net	111,277,440	107,712,902
Mortgage-backed securities, net	34,046,884	70,290,887
Investment and mortgage-backed securities held-for-sale	--	--
Loans held-for-sale	--	590,000
Real estate owned, net	--	287,673
Federal Home Loan Bank stock - at cost	1,120,000	1,588,900
Accrued interest receivable, net:		
Loans	779,644	736,449
Mortgage-backed securities	252,671	720,198
Investments	310,796	417,201
Office premises and equipment, net	1,935,062	2,704,257
Goodwill and other intangible assets (Note 3)	--	1,166,394
Prepaid expenses and sundry assets	266,928	314,332
Total Assets	$186,511,697	$253,504,905
Liabilities and Net Worth		
Liabilities:		
Savings deposits (Note 3)	$161,395,445	$233,346,805
Federal Home Loan Bank advances	8,000,000	--
Advance deposits by borrowers for taxes and insurance	889,382	2,135,933
Accrued interest on savings and other deposits	122,071	341,773
Accrued income taxes payable	75,264	(22,799)
Other accrued expenses and sundry liabilities	713,397	1,513,239
Total Liabilities	171,195,559	237,314,951
Stockholders' equity (Note 5):		
Common Stock, $1.00 par value per share; 10,000,000 shares authorized; 977,720 and 1,097,699 shares issued and outstanding	977,720	1,097,699
Additional paid-in capital	4,352,135	5,334,181
Retained earnings - substantially restricted	10,084,595	9,832,584
Unrealized loss on marketable equity securities	(5,175)	--
Employee stock ownership plan debt	(93,137)	(74,510)
Total stockholders' equity	15,316,138	16,189,954
Total Liabilities and Stockholders' Equity	$186,511,697	$253,504,905

See accompanying notes to financial statements.

FIDELITY SAVINGS BANK

Statements of Income (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1991	1992	1991	1992
Interest Income:				
Loans	$ 2,921,724	$ 2,550,980	$ 8,758,323	$ 7,908,991
Mortgage-backed securities	677,994	1,412,028	1,747,777	3,922,465
Investment securities	356,368	642,195	1,094,510	2,078,028
Deposits with other institutions	214,728	158,033	688,802	670,694
Total interest income	4,170,814	4,763,236	12,289,412	14,580,178
Interest Expense:				
Savings deposits	2,547,304	2,949,833	7,793,106	9,063,068
Borrowed funds	161,319	10,250	316,696	221,635
Total interest expense	2,708,623	2,960,083	8,109,802	9,284,703
Net interest income before provision for loan losses	1,462,191	1,803,153	4,179,610	5,295,475
Provision for loan losses	65,000	105,000	646,100	315,000
Net interest income after provision for loan losses	1,397,191	1,698,153	3,533,510	4,980,475
Other income:				
Service fee income	34,793	28,160	83,286	82,326
Gain (loss) on sale of investment securities & mortgage-backed securities, net	(19,919)	33,474	60,089	15,798
Gain (loss) on trading account securities, net	(625)	--	(312)	--
Gain on sale of loans	--	17,354	--	29,211
Other operating income	81,430	84,981	199,744	243,564
Total other income	95,679	163,969	342,807	370,899
Operating expenses:				
Compensation, payroll taxes and fringe benefits	433,766	611,071	1,315,263	1,767,215
Office occupancy and equipment expense	71,637	127,716	208,651	419,986
Depreciation and amortization	67,262	81,057	197,882	220,098
Federal insurance premiums	83,226	108,975	237,623	303,785
(Gain) loss on real estate owned, net	(12,104)	(353)	(13,446)	(1,006)
Amortization of intangibles	--	66,022	--	154,052
Other operating expenses	209,155	293,791	678,639	952,128
Total operating expenses	852,942	1,288,279	2,624,612	3,816,258
Income before income tax provision	639,928	573,843	1,251,705	1,535,116
Income tax provision	273,800	239,000	575,800	638,000
Net Income	$ 366,128	$ 334,843	$ 675,905	$ 897,116
Net income per common share (Notes 2 & 5)	$ 0.34	$ 0.31	$ 0.63	$ 0.82
Dividends per common share (Note 5)	$ 0.06	$ 0.06	$ 0.18	$ 0.18

See accompanying notes to financial statements.

FIDELITY SAVINGS BANK

Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30,	
	1991	1992
Operating Activities:		
Net income:	$ 675,905	$ 897,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	646,100	315,000
(Gain) loss on real estate owned	(13,446)	(1,006)
Depreciation and amortization	197,882	220,098
Deferred loan fee amortization	(45,317)	(153,498)
Amortization of investment and mortgage-backed securities discounts/premiums, net	16,726	417,812
Amortization of intangibles	--	154,052
Net (gain) loss on sale of investment and mortgage-backed securities held-for-sale	(59,777)	(15,798)
Net gain on loans held-for-sale	--	(29,211)
Proceeds from sales of investment and mortgage-backed securities held-for-sale	2,840,847	2,002,983
Purchases of investment and mortgage-backed securities held-for-sale	(1,997,266)	(2,009,192)
Origination of loans held-for-sale	--	(1,700,866)
Proceeds from sales of loans held-for-sale	--	1,110,866
(Increase) Decrease in interest receivable	(37,818)	(530,737)
Increase (decrease) in accrued income taxes	(249,275)	(98,063)
Premium paid for branch acquisitions	--	(1,320,445)
Increase (Decrease) in interest payable	(21,152)	219,702
Other changes - net	351,229	156,623
Net cash (used) provided by operating activities	2,304,638	(364,564)
Investing Activities:		
Proceeds from sales of investment securities	1,000,000	--
Proceeds from maturities and principal repayments of investment securities	1,353,051	17,414,758
Purchases of investment securities	(5,259,557)	(54,687,606)
Net (increase) decrease in other interest-earning deposits with other institutions	2,772,000	6,528,000
Purchases of mortgage-backed securities	(16,046,710)	(45,795,708)
Proceeds from mortgage-backed securities principal repayments	2,161,147	9,478,436
Proceeds from sales of mortgage-backed securities	--	--
Principal repayments on first mortgage loans	7,314,778	15,566,615
Principal repayments on other loans	7,204,871	9,915,026
First mortgage loans originated and disbursed	(5,048,098)	(13,110,133)
Other loans originated	(9,785,581)	(9,059,214)
Additions to office premises and equipment	(88,575)	(989,293)
Net cash used by investing activities	(14,422,674)	(64,739,119)
Financing Activities:		
Net increase (decrease) in deposits	3,035,521	1,102,115
Purchase of branch deposits	--	70,849,245
Increase in advance payments by borrowers for taxes and insurance	1,126,242	1,246,551
Increase in reverse repurchase agreements	3,851,000	--

FIDELITY SAVINGS BANK

Statements of Cash Flows (Unaudited) (Cont'd.)

Decrease in reverse repurchase agreements	(3,851,000)	--
FHLB advance repayments	(1,500,000)	(8,000,000)
FHLB advances	9,500,000	--
Cash dividends paid	(175,989)	(177,993)
Stock options exercised	--	131,725
Net cash provided by financing activities	11,985,774	65,151,643
Increase (decrease) in cash and cash equivalents	(132,262)	47,960
Cash and cash equivalents at beginning of year	3,736,570	6,478,865
Cash and cash equivalents at end of year	$ 3,604,308	$ 6,526,825

Supplemental Disclosure of Cash Flow Information

Cash paid during the period for:		
Interest on deposits and other borrowings	$ 8,138,508	$ 9,454,547
Income Taxes	825,075	736,341

See accompanying notes to financial statements.

FIDELITY SAVINGS BANK
Statement of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Marketable Equity Securities	Employee Stock Ownership Plan Debt	Total
Balance at September 30, 1990	$977,720	$4,352,135	$ 9,221,482	($37,890)	($117,973)	$14,395,474
Net income			675,905			675,905
Cash dividends paid at $.18 per share			(175,989)			(175,989)
Recovery of unrealized loss on marketable equity securities				15,499		15,499
Employee stock ownership plan debt repayment					18,627	18,627
Balance at June 30, 1991	$977,720	$4,352,135	$ 9,721,398	($22,391)	($ 99,346)	$14,929,516
Balance at September 30, 1991	$977,720	$4,352,135	$10,084,595	($ 5,175)	($ 93,137)	$15,316,138
Net income			897,116			897,116
Cash dividends paid at $.18 per share			(177,993)			(177,993)
10% Stock dividend on common stock	99,519	870,781	(970,300)			--
Cash paid on stock dividend in lieu of fractional shares			(834)			(834)
Recovery of unrealized loss on marketable equity securities				5,175		5,175
Employee stock ownership plan debt repayment					18,627	18,627
Stock options exercised	20,460	111,265				131,725
Balance at June 30, 1992	$1,097,699	$5,334,181	$ 9,832,584	$ --	($ 74,510)	$16,189,954

FIDELITY SAVINGS BANK
Notes to Financial Statements
(Unaudited)

September 30, 1991 and June 30, 1992

(1) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the instructions for Form F-4 and, therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in shareholders' equity, and changes in cash flow in conformity with generally accepted accounting principles. However, all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three and nine month periods ended June 30, 1992 are not necessarily indicative of the results which may be expected for the entire fiscal year.

Cash and cash equivalents include cash and amounts due from depository institutions, fed funds sold and the demand deposits portion of interest-earning deposits with other institutions.

(2) Earnings Per Share

The average number of shares used to calculate earnings per share for the three months ended June 30, 1991 and 1992 were 1,075,492 and 1,095,880, respectively. The average number of shares used to calculate earnings per share for the nine months ended June 30, 1991 and 1992 were 1,075,492 and 1,087,710, respectively. The average number of shares for fiscal 1991 has been restated to reflect the 10% stock dividend discussed in Note 5.

(3) Branch Acquisitions

On November 15, 1991, the Bank completed the acquisitions of its seventh and eighth offices, the Allison Park and Bloomfield branch offices formerly owned by Atlantic Financial Savings, F.A. Fidelity acquired these branch offices from the Resolution Trust Corporation (RTC) and, in connection therewith, assumed $63.4 million of deposits, purchased approximately $37,000 of savings account loans, and paid the RTC a premium of $1.2 million. In addition, the Bank had the option, which it exercised, to purchase from the RTC the Bloomfield branch office building, and furniture and fixtures in both branches for approximately $289,000.

On November 22, 1991, the Bank completed the acquisition of its ninth office by purchasing the Mt. Lebanon branch of Parkvale Savings Bank. Fidelity acquired approximately $26,000 of savings account loans, assumed $7.5 million of deposits and paid a premium of $165,000. In addition, the Bank purchased the branch office building and the furniture and fixtures for approximately $292,000.

(4) Charter Conversion

As of November 27, 1991 the Bank completed the conversion of its charter from a Pennsylvania-chartered permanent reserve fund stock savings association to a Pennsylvania-chartered stock savings bank. This conversion replaces the Office of Thrift Supervision (OTS) as the Bank's primary federal regulator with the Federal Deposit Insurance Corporation.

(5) Stock Dividend

On April 21, 1992 the Board of Directors declared a 10% stock dividend payable on May 8, 1992 to stockholders of record on May 1, 1992. All per share amounts have been restated to reflect this stock dividend.

FIDELITY SAVINGS BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Comparison of Financial Condition at September 30, 1991 and June 30, 1992

Total assets of the Bank increased $67.0 million or 35.9% to $253.5 million at June 30, 1992, from $186.5 million at September 30, 1991. Significant changes in individual categories were an increase in investment securities of $36.9 million or 194.8%, an increase in mortgage-backed securities of $36.2 million or 106.4%, a decrease of $7.1 million or 47.6% in interest-earning deposits with other institutions, and a decrease in loans receivable of $3.6 million or 3.2%. The increases result primarily from investing the cash received in the purchase of three branch offices in November 1991 (see Note 3 to the financial statements). The branch acquisitions also generated goodwill and other intangible assets which amounted to $1.2 million at June 30, 1992. These intangibles will generally be amortized on a straight-line basis over five years. The decrease in loans receivable reflects the generally higher level of prepayments of principal and refinancings that have occurred in this fiscal year due to the low interest rate environment that has existed.

Total liabilities of the Bank increased $66.1 million or 38.6% to $237.3 million at June 30, 1992 from $171.2 million at September 30, 1991. The increase primarily reflects an increase in savings deposits of $72.0 million or 44.6% resulting from the branch acquisitions discussed above, and an increase of $1.2 million or 140.2% in advance deposits by borrowers for taxes and insurance which is primarily a temporary increase reflecting the timing of tax and insurance payments. Partially offsetting these increases was an $8 million or 100.0% decrease in Federal Home Loan Bank advances outstanding.

Stockholder's equity increased $874,000 or 5.7% to $16.2 million at June 30, 1992 compared to $15.3 million at September 30, 1991. The increase reflects net income for the nine months ended June 30, 1992 of $897,000, a decrease of $5,000 or 100% in unrealized loss on marketable equity securities, a decrease of $19,000 or 20.0% in employee stock ownership plan debt, and an increase in common stock and additional paid-in capital of $132,000 resulting from stock options exercised. In addition, a 10% stock dividend was paid on May 8, 1992 which had the effect of increasing common stock and additional paid-in capital by $970,000 and reducing retained earnings by the same amount. Partially offsetting these factors was the payment of common stock cash dividends of $178,000 during the period.

Comparison of Results of Operations for the Three and Nine Month Periods Ended June 30, 1991 and 1992

Net Income

The Bank's net income for the three months ended June 30, 1992 decreased $31,000 or 8.5% to $335,000 as compared to $366,000 for the same period in fiscal 1991. Net income for the nine months ended June 30, 1992 increased $221,000 or 32.7% to $897,000 as compared to $676,000 for the same period in fiscal 1991. The decrease for the three months ended June 30, 1992 compared to the same period in fiscal 1991 reflects increases in the provision for loan losses and other operating expenses, offset partially by increases in net interest income and other income and a reduction in the provision for income taxes. The increase for the nine months ended June 30, 1992, compared to the same period in fiscal 1991, reflects an increase in net interest income before provision for loan losses, a decrease in the provision for loan losses, an increase in other income and a decrease in the effective tax rate. Partially offsetting these favorable factors was an increase in operating expenses.

Significantly impacting fiscal 1992 operating results was the acquisition of three branch offices in November 1991 (see Note 3 to the financial statements). In addition to contributing to the increase in net interest income, these acquisitions also caused increases in both recurring and non-recurring expenses. Recurring expenses include items such as branch personnel cost, depreciation and maintenance costs. Non-recurring costs included computer system conversion costs, and the allocation by the RTC of certain resolution expenses. While Fidelity acquired the Allison Park and Bloomfield branch offices on November 15, 1991, the RTC required that all computer processing and back-office functions continue to be performed by them or their agents until February 7, 1992, when Fidelity was permitted to convert the accounts acquired to the Bank's computer system. During this interim period and a period of time thereafter Fidelity, and the ten other banks that acquired Atlantic Financial offices from the RTC, were allocated a proportionate share of the costs the RTC incurred to run the operation. This allocation of costs has now substantially ceased.

Interest Income

Interest on loans decreased $371,000 or 12.7% to $2.6 million and $849,000 or 9.7% to $7.9 million for the three and nine month periods ended June 30, 1992, respectively, compared to the same periods in fiscal 1991. For both periods, the decrease is attributable to a decrease in the average yield earned on the loan portfolio as well as a decrease in the average loan portfolio balance outstanding for the fiscal 1992 periods as compared to fiscal 1991. The decrease in yield reflects the generally lower interest rate environment existing in fiscal 1992.

Interest on mortgage-backed securities increased $734,000 or 108.3% to $1.4 million and $2.2 million or 124.4% to $3.9 million for the three and nine month periods ended June 30, 1992, respectively, compared to the same periods in fiscal 1991. The increase reflects an increase in the average balance of mortgage-backed securities owned in the fiscal 1992 periods as compared to fiscal 1991, partially offset by a decrease in the average yield earned on mortgage-backed securities in fiscal 1992 as compared to fiscal 1991. The increase in the average balance owned in the fiscal 1992 periods results primarily from investing a portion of the cash received from the branch acquisitions in mortgage-backed securities. The decrease in yield reflects the lower interest rate environment in fiscal 1992.

Interest on investment securities increased $286,000 or 80.2% to $642,000 and $984,000 or 18.9% to $2.1 million for the three and nine month periods ended June 30, 1992, respectively, compared to the same periods in fiscal 1991. The increases reflect an increase in the average balance of investment securities owned in the fiscal 1992 periods as compared to fiscal 1991, partially offset by decreases in the average yield earned on the securities. The increase in the average balance reflects the investment of a portion of the cash received from the branch acquisitions in investment securities.

Interest on deposits with other institutions decreased $57,000 or 26.4% to $158,000 and $18,000 or 2.6% to $671,000 for the three and nine month periods ended June 30, 1992, respectively, compared to the same periods in fiscal 1991. For the three month period ended June 30, 1992, as compared to the same period in fiscal 1991, the decrease reflects lower yields earned on the deposits, as well as a decrease in the average balance of deposits with other institutions in the 1992 period. For the nine month period in fiscal 1992 as compared to fiscal 1991, the decrease reflects a decrease in yields earned, partially offset by an increase in the average balance of deposits with other institutions. A portion of the proceeds received from the branch acquisitions was also initially invested in deposits with other institutions thereby increasing the average balance for the nine months ended June 30, 1992.

Interest Expense

Interest on savings deposits increased $403,000 or 15.8% to $2.9 million and $1.3 million or 16.3% to $9.1 million for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991. The increases reflect an increase in the average balance of savings deposits in the fiscal 1992 periods as compared to fiscal 1991, partially offset by decreases in the average cost of deposits. The increase in savings deposits in fiscal 1992 primarily results from the acquisition of three branch offices and approximately $70.9 million in deposits in November 1991.

Interest on borrowed funds decreased $151,000 or 93.6% to $10,000 and $95,000 or 30.0% to $222,000 for the three and nine month periods ended June 30, 1992, as compared to the same periods in fiscal 1991. The variance among periods reflects varying levels of advances outstanding from the Federal Home Loan Bank of Pittsburgh. Advances ranged from a high of $8 million outstanding during portions of fiscal 1991 and fiscal 1992 to no advances outstanding at June 30, 1992.

Net Interest Income before Provision for Loan Losses

The Bank's net interest income before provision for loan losses increased $341,000 or 23.3% to $1.8 million and $1.1 million or 26.7% to $5.3 million for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991. The increase for both periods is primarily attributable to the increase in interest earning assets and liabilities and the resulting spread income earned due to the branch acquisitions completed in November 1991.

Provision for Loan Losses

The Bank's provision for loan losses was $105,000 for the three month period ended June 30, 1992, as compared to $65,000 for the same period in fiscal 1991. For the nine month period ended June 30, 1992, the provision was $315,000 compared to $646,000 for the same period in fiscal 1991. The increase in the provision for the three month period ended June 30, 1992 compared to the same period in fiscal 1991 reflects a continuing systematic provision for loan losses based on management's evaluation of current economic conditions, as well as an industry trend toward higher general loan loss reserves. This systematic provision is somewhat higher in fiscal 1992 than in fiscal 1991. The decrease in the nine month fiscal 1992 provision compared to the same period in fiscal 1991 reflects, among other things, one major factor. In the nine months ended June 30, 1991 a specific reserve of $400,000 was recorded related to a large loan placed on non-accrual status and written-off.

Other Income

Service fee income decreased $7,000 or 19.1% to $28,000 and $1,000 or 1.1% to $82,000 for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991. The decrease for the three month period ended June 30, 1992, as compared to the same period in fiscal 1991, primarily reflects a decrease in late charges on loans. The nine month results were comparable for fiscal 1991 and fiscal 1992.

Gain on sale of investment securities and mortgage-backed securities increased $53,000 to a gain of $33,000 and decreased $44,000 or 73.7% to a gain of $16,000 for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991. The results for all periods reflect the sale of securities held-for-sale. These represent securities purchased for yield purposes, are designated as being in the held-for-sale category, and are valued at the lower of cost or market. Such securities can be sold at any time.

Loss on trading account securities was $1,000 for the three months ended June 30, 1991. Trading account activity for the nine months ended June 30, 1991 resulted in a break even position. The Bank has ceased all trading activity and there have been no trades executed during fiscal 1992.

Gain on sale of loans totalled $17,000 and $29,000 for the three and nine month periods ended June 30, 1992. During fiscal 1992, the Bank became an approved seller/servicer of Federal National Mortgage Association (FNMA) loans, and has begun a limited program to originate for sale to FNMA fixed-rate residential mortgage loans. Fiscal 1992 results reflect the sale of such loans to FNMA. There were no loan sales in fiscal 1991.

Other operating income includes miscellaneous sources of income which consist primarily of various fees related to checking accounts, fees from the sale of cashier's checks and money orders, and safe deposit box rental income. Such other operating income increased $4,000 or 4.4% to $85,000 and increased $44,000 or 21.9% to $244,000 for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991. The increases in the fiscal 1992 periods, as compared to the same periods in fiscal 1991, primarily reflect increases in checking account fees, check printing charges and returned check charges. The Bank has experienced growth in its checking products and, combined with the deposit accounts acquired in the branch acquisitions, has seen increases in checking account related fees.

Operating Expenses

Compensation, payroll taxes and fringe benefits, the largest component of operating expenses, increased $177,000 or 40.9% to $611,000 and $452,000 or 34.4% to $1.8 million for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991. Personnel costs associated with the three branch acquisitions in November 1991 was the most significant factor in the increased fiscal 1992 costs. Other factors contributing to the increase were normal salary increases, higher fringe benefit costs such as medical insurance, and the cost of temporary personnel utilized during the branch acquisition process to perform certain clerical functions.

Office occupancy and equipment expenses increased $56,000 or 78.3% to $128,000 and $211,000 or 101.3% to $420,000 for the three and nine month periods ended June 30, 1992, respectively, compared to the same periods in fiscal 1991. The increases for the fiscal 1992 periods compared to fiscal 1991 were caused partially by increased utilities and maintenance expenses resulting from increasing the branch network by three branches. In addition, the Allison Park branch acquired in November 1991 is rented, thus this expense is now included in fiscal 1992 results. Finally, the RTC allocated to Fidelity certain occupancy and data processing costs related to the branches acquired from them. These costs totalled approximately $110,000 from the acquisition date in November 1991 through June 30, 1992. This allocation of costs has now substantially ceased.

Depreciation and amortization increased $14,000 or 20.5% to $81,000 and $22,000 or 11.2% to $220,000 for the three and nine month periods ended June 30, 1992, respectively, compared to the same periods in fiscal 1991. The increases reflect the Bank's expanded branch network in fiscal 1992.

Federal insurance premiums increased $26,000 or 30.9% to $109,000 and $66,000 or 27.8% to $304,000 for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991, due both to an increase in the deposit base and an increase in the rate of federal insurance premiums charged.

Net gain on real estate owned was $12,000 for the three months ended June 30, 1991 and was not significant for the same period in fiscal 1992. Net gain was $1,000 and $13,000 for the nine month periods ended June 30, 1992 and 1991, respectively. The results reflect the costs associated with the acquisition and disposition of properties during the periods. The Bank did not have a significant amount of real estate owned during these periods.

Amortization of intangibles was $66,000 and $154,000 for the three and nine month periods ended June 30, 1992, respectively. There was no intangible amortization in fiscal 1991. The fiscal 1992 amount reflects the amortization of the intangibles generated by the three branch acquisitions that occurred in November 1991. The intangibles will generally be amortized on a straight-line basis over five years.

Other operating expenses, which consist primarily of check processing costs, consulting fees, advertising, service charges, and other administrative expenses, increased $85,000 or 40.4% to $294,000 and $274,000 or 40.3% to $952,000 for the three and nine month periods ended June 30, 1992, respectively, as compared to the same periods in fiscal 1991. Significant increases in fiscal 1992 costs, as compared to the same periods in fiscal 1991, included advertising, check printing, stationary and supplies, and postage expenses. All of these costs were directly affected by the November 1991 branch acquisitions. In addition, computer consultants were employed to programmatically transfer the deposit account information for the acquired branches from the computer systems they were previously on to the Bank's system. Similar costs were not incurred in fiscal 1991.

Income Taxes

Income taxes decreased $35,000 or 12.7% to $239,000 and increased $62,000 or 10.8% to $638,000 for the three and nine month periods ended June 30, 1992, respectively, compared to the same periods in fiscal 1991. The decrease for the three month period ended June 30, 1992, as compared to the same period in fiscal 1991 reflects decreased profitability as well as a slight decrease in the effective tax rate for the period from 42.8% in fiscal 1991 to 41.6% in fiscal 1992. The increase for the nine month period reflects increased profitability, partially offset by a decrease in the effective tax rate for the 1992 period to 41.6% from 46.0% in fiscal 1991.

Capital Requirements

The FDIC has amended its leverage ratio requirements (effective April 10, 1991) to require that core capital equal to 3% be required for the most highly rated banking organizations and that all other banking organizations would be required to maintain levels 100 to 200 basis points higher based on their particular circumstances. At June 30, 1992, the Bank's leverage ratio was 5.91%.

In March 1989, the FDIC adopted a risk-based capital rule which applies to all state-chartered banks that are not members of the Federal Reserve System ("state non-member banks", such as the Bank. The rule requires state non-member banks to maintain minimum capital levels based upon a weighing of their assets according to risk. Effective December 31, 1990, state non-member banks are required to maintain a ratio or qualifying total capital to risk-weighted assets and off-balance sheet items of a minimum of 7.25%. By the end of 1992, such banks will be required to maintain qualifying capital equal to 8% of their risk-weighted assets and off-balance sheet items. At June 30, 1992, the Bank's total capital to risk-weighted assets ratio, calculated under the FDIC risk-based capital requirement, was 12.6%.

Liquidity

The Savings Bank is required to maintain a daily average of liquid assets (cash, certain time deposits, corporate debt securities and commercial paper, securities of certain mutual funds, banker's acceptances, and specified United States government, state or federal agency obligations), equal to at least 5% of the average daily balance of its net withdrawable savings deposits plus short-term borrowings. This liquidity requirement may be changed from time to time by the FDIC to any amount within the range of 4% to 10% and is currently 5%. Short-term liquid assets currently must consist of 1% of the liquidity base. Monetary penalties may be imposed for failure to meet liquidity requirements. The Savings Bank's average daily liquidity ratio for June 1992 was 12.05% and its short-term liquidity ratio at June 30, 1992 exceeded the applicable regulatory requirement. The Savings Bank has consistently maintained liquidity levels in excess of FDIC requirements in recent years.

The Bank's primary sources of funds have historically consisted of deposits, amortization and prepayments of outstanding loans, borrowings from the FHLB of Pittsburgh and other sources, including sales of investment securities and, to a limited extent, loans. At June 30, 1992, the total of approved loan commitments amounted to $2.0 million. In addition, the Bank had $2.1 million of undispersed loan funds at that date. The amount of savings certificates which mature during the next twelve months totals approximately $90.7 million, a substantial portion of which management believes, on the basis of prior experience, will remain in the Bank.

Classification of Assets

Under current federal regulations, an institution's problem assets are subject to classification according to one of three categories: "substandard," "doubtful," and "loss." For assets classified "substandard" and "doubtful," the institution is required to establish prudent general loan loss reserves in accordance with generally accepted accounting principles. Assets classified "loss" must be either completely written off or supported by a 100% specific reserve. A classification category designated "special mention" also must be established and maintained for assets not currently requiring classification but having potential weaknesses or risk characteristics that could result in future problems. An institution is required to develop an in-house program to classify its assets, including investments in subsidiaries, on a regular basis and set aside appropriate loss reserves on the basis of such classification. At June 30, 1992, the Savings Bank's classified assets totalled $4.9 million. Non-performing loans totalled $937,000 at June 30, 1992 compared to $750,000 at September 30, 1991. The Bank has real estate owned at June 30, 1992 of $288,000. Non-performing loans at June 30, 1992 consisted of seven single-family residential real estate loans totalling $347,000, one commercial real estate loan totalling $455,000, and eight installment and commercial business loans totalling $123,000. Real estate owned consisted of one single-family residence and one six-unit residential property.

Part II - Other Information

Item. 1 Legal Proceedings

The Bank is not involved in any pending legal proceedings other than non-material legal proceedings undertaken in the ordinary course of business.

Item 2. Changes in Securities
None

Item 3. Defaults Upon Senior Securities
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K
None

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIDELITY SAVINGS ASSOCIATION

Date: August 7, 1992

By: /s/ William L. Windisch
William L. Windisch
President and Chief Executive Officer

Date: August 7, 1992

By: /s/ Richard G. Spencer
Richard G. Spencer
Vice President and Chief Financial Officer

[redacted]

[redacted]

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

RECD S.E.C.

APR 20 1992

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FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from_____________________ to_____________________

Commission file number 33-467

FORD BANK GROUP, INC.

(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of incorporation or organization)

75-2048486
(I.R.S. Employer Identification No.)

PROCESSED BY
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Q-Data Corp. - St. Petersburg, FL

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P.O. Box 5240
Lubbock, Texas
(Address of principal executive offices)

79417
(Zip Code)

L30

(806) 763-5993
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X . No____.

Approximate number of shares outstanding of the registrant's common stock, as of April 17, 1992.

(Title of Class)	(Shares Outstanding)
Common Stock $.40 Par Value	3,103,591

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Part I. - Financial Information

Item 1. Financial Statements

Financial Statements are hereby incorporated by reference from the Registrant's 1992 First Quarter Financial Review made available to stockholders.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and Analysis of Financial Condition and Results of Operations are hereby incorporated by reference from the Registrant's 1992 First Quarter Financial Review made available to stockholders.

Part II. - Other Information

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Item 13.1 1992 First Quarter Financial Review

(b) Reports on Form 8-K

The Company filed a Form 8-K dated March 20, 1992 which reported under Item 2 the transaction described below.

On March 20, 1992, one of the Company's subsidiaries, First National Bank at Lubbock, acquired certain assets (primarily cash equivalents and loans) and assumed certain liabilities (primarily customer deposits) of an insolvent savings association, First Federal Savings Association, Lubbock, Texas (First Federal). The transaction resulted in an increase in consolidated assets and liabilities of approximately $168 million at the date of acquisition.

The Company stated in the Form 8-K that audited financial statements of the assets acquired and liabilities assumed as required by Item 7(a) of Form 8-K and Rule 3-05 of Regulation S-X are not included on the basis that there has not been a continuation of operations of First Federal in accordance with Staff Accounting Bulletin No. 89, and that it was currently impractical to provide pro forma financial information as required by Item 7(b) of Form 8-K. However, such pro forma financial information will be furnished within sixty (60) days of the acquisition.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORD BANK GROUP, INC.
(Registrant)

Sr. Vice President
(Principal Financial and
Accounting Officer)

Date: April 17, 1992

Exhibit 13.1

1992 First Quarter Financial Review

To Our Stockholders

Ford Bank Group, Inc. had a successful first quarter. Net income was a record $3,533,000 or $.99 per share in the first quarter of 1992. This compares to $1,836,000 or $.52 per share for the first quarter a year-ago. Key performance measures also improved. The return on average assets was .93 percent for the current quarter, compared to .57 percent for the same period last year. The Company achieved a return on average common stockholders' equity for the first quarter of 1992 of 18.93 percent, up significantly from 11.33 percent in the same period of 1991.

Total assets of the Company ended the quarter at $1.620 billion, an increase of $386 million over the 1991 balance of $1.234 billion. Stockholders' equity grew at an annual rate of 14 percent to $88.7 million at March 31, 1992.

On March 20, 1992, one of the Company's subsidiaries, First National Bank at Lubbock, acquired certain performing loans and cash equivalents and assumed the customer deposits of First Federal Savings Association, Lubbock, Texas. The transaction increased consolidated assets by approximately $168 million at the date of acquisition. The acquisition increases the Company's market share and franchise value in the Lubbock area.

Nonperforming assets as a percentage of total loans and foreclosed real estate improved for the seventh consecutive quarter down to 5.02 percent at March 31, 1992. The allowance for loan losses is stable at 3.10 percent of period-end loans. These trends reflect the Company's continued emphasis on asset quality.

Ford Bank Group, Inc. continues to exceed Federal requirements for leverage and risk-based capital ratios. At March 31, 1992 the leverage capital and risk-based capital ratios were 5.09 percent and 13.32 percent, respectively, surpassing the required 3.00 percent and 7.25 percent, respectively.

Tom C. Nichols
President, Chief Operating Officer

FORD BANK GROUP, INC.
Consolidated Condensed Balance Sheets

Dollars in thousands, except par value	March 31, 1992	March 31, 1991	December 31, 1991
Assets			
Cash and due from banks	$ 135,537	$ 96,690	$ 161,591
Interest bearing deposits in banks	3,436	8,911	11,006
Federal funds sold and resale agreements	75,240	178,875	125,380
Securities held for resale	561	—	561
Investment securities, market value of $697,724, $380,531 and $493,899	691,712	381,355	483,633
Loans, net of unearned discount	644,720	495,811	652,981
Allowance for loan losses	(20,011)	(9,219)	(20,156)
Net loans	624,709	486,592	632,825
Premises and equipment	31,055	23,240	30,655
Intangible assets	10,203	10,922	10,232
Other real estate	20,191	21,052	22,061
Other assets	26,909	25,967	24,451
Total assets	$ 1,619,553	$ 1,233,604	$ 1,502,395
Liabilities			
Deposits:			
Non-interest bearing	$ 270,706	$ 186,755	$ 296,715
Interest bearing	1,103,999	786,356	989,621
Total deposits	1,374,705	973,111	1,286,336
Federal funds purchased and repurchase agreements	101,788	131,950	75,887
Other short-term debt	1,503	19,275	4,000
Long-term debt	38,109	32,053	38,627
Other liabilities	14,701	8,813	11,868
Total liabilities	1,530,806	1,165,202	1,416,718
Stockholders' Equity			
Non-redeemable preferred stock--$42 par value Authorized: 1,000,000 shares Issued: 511,867, 246,066 and 511,867 shares	21,498	10,335	21,498
Common stock--$.40 par value Authorized: 20,000,000 shares Issued: 3,469,275, 3,466,894 and 3,469,275 shares	1,388	1,387	1,388
Surplus	33,222	33,916	33,240
Retained earnings	37,525	27,650	34,437
Common stock held in treasury at cost: 365,684, 365,984 and 365,684 shares	(4,886)	(4,886)	(4,886)
Total stockholders' equity	88,747	68,402	85,677
Total liabilities and stockholders' equity	$ 1,619,553	$ 1,233,604	$ 1,502,395

See accompanying Notes to Consolidated Condensed Financial Statements.

FORD BANK GROUP, INC.
Consolidated Condensed Statements of Income

In thousands, except per share amounts	Three Months Ended March 31, 1992	1991
Interest Income		
Loans including fees	$ 14,366	$ 13,463
Investment securities	8,976	7,196
Other	1,770	4,218
Total interest income	25,112	24,877
Interest Expense		
Deposits	10,767	12,444
Short-term debt	1,028	2,872
Long-term debt	872	770
Total interest expense	12,667	16,086
Net Interest Income	12,445	8,791
Provision for loan losses	411	492
Net interest income after provision for loan losses	12,034	8,299
Non-Interest Income		
Trust fees	662	644
Service charges on depositor accounts	2,059	1,200
Other service charges, commissions and fees	452	530
Securities gains	1	—
Gain on the disposition of acquired assets, net	1,424	1,244
Other	206	210
Total non-interest income	4,804	3,828
Non-Interest Expense		
Employees' compensation and benefits	5,271	4,113
Furniture and equipment	500	382
Net occupancy	619	463
Taxes, other than on income	90	166
Other real estate losses and expense	303	545
Data processing fees	1,010	687
Amortization of intangible assets	269	238
Other	3,422	2,574
Total non-interest expense	11,484	9,168
Income before income taxes	5,354	2,959
Income taxes	1,821	1,123
Net income	$ 3,533	$ 1,836
Net income applicable to common shares	$ 3,088	$ 1,621
Earnings Per Common Share		
Primary	$ .99	$ .52
Fully diluted	$ .84	$ .52
Average Common Shares Outstanding		
Primary	3,104	3,133
Fully diluted	4,006	3,133

See accompanying Notes to Consolidated Condensed Financial Statements.

FORD BANK GROUP, INC.

Consolidated Condensed Statements of Cash Flows

In thousands	Three Months Ended March 31 1992	Three Months Ended March 31 1991
Cash Flows from Operating Activities:		
Net income adjusted to net cash provided by operating activities	$ 4,515	$ 832
Cash Flows from Investing Activities:		
Net (increase) decrease in interest bearing deposits in banks	7,570	(6,861)
Proceeds from maturities and principal reductions of investment securities	52,055	28,420
Purchases of investment securities	(260,694)	(84,706)
Net decrease in Federal funds sold and resale agreements	50,140	43,385
Net decrease in loans made to customers	18,045	29,513
Proceeds from sales of loans	3,129	4,069
Purchases and improvements of premises and equipment and other real estate	(1,114)	(119)
Proceeds from sales of other real estate	1,597	1,399
Cash and cash equivalents acquired	151,912	---
Net cash provided by investing activities	22,640	15,100
Cash Flows from Financing Activities:		
Net decrease in deposits	(75,477)	(76,431)
Net increase in Federal funds purchased, repurchase agreements and other short-term borrowings	23,404	16,092
Repayment of long-term debt	(518)	(1)
Issuance of common stock	---	1
Issuance of preferred stock, net of issuance expenses	(18)	94
Sale of treasury stock	---	3
Dividends paid	(600)	(194)
Net cash used by financing activities	(53,209)	(60,436)
Net decrease in cash and cash equivalents	(26,054)	(44,504)
Cash and cash equivalents at beginning of year	161,591	141,194
Cash and Cash Equivalents at End of Period	$ 135,537	$ 96,690
Supplemental Cash Flow Information:		
Cash paid for interest	$ 13,947	$ 15,761
Cash paid for taxes	250	—
Other real estate acquired in satisfaction of loans through foreclosure	—	675
Loans made to facilitate sales of other real estate	367	208

See accompanying Notes to Consolidated Condensed Financial Statements.

FORD BANK GROUP, INC.
Notes to Consolidated Condensed Financial Statements

Note 1: Summary of Significant Accounting Policies

In the opinion of management, the accompanying unaudited consolidated condensed financial statements reflect all adjustments (which consist of normal recurring adjustments) necessary for a fair presentation. Interim results are not necessarily indicative of results for a full year. The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the Company's annual financial statements and notes.

The consolidated condensed financial statements include the accounts of Ford Bank Group, Inc. (Parent), a multi-bank holding company, and its wholly or substantially owned subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation.

Certain 1991 data has been reclassified to conform to the 1992 presentation.

Note 2: Earnings per Common Share

Primary earnings per common share is calculated by dividing net income, adjusted for preferred stock dividends declared, by the sum of the weighted average number of shares outstanding and the number of shares of common stock which would be issued assuming exercise of stock options and warrants during each period.

Fully diluted earnings per common share is based on net income adjusted for dividends declared on nonconvertible preferred stock. The weighted average number of shares of common stock outstanding is increased by the assumed conversion of convertible preferred stock from the date of issuance and the number of shares of common stock which would be issued assuming exercise of stock options and warrants. Adjustments to net income and the weighted average number of shares of common stock outstanding are made only when such adjustments dilute earnings per common share.

The calculation of net income applicable to common stock and the weighted average shares outstanding is presented below (in thousands):

	Three Months Ended March 31,			
	1992		1991	
	Primary	Fully Diluted	Primary	Fully Diluted
Net Income	$ 3,533	$ 3,533	$ 1,836	$ 1,836
Dividends on non-convertible preferred stock	(164)	(164)	(215)	(215)
Dividends on convertible preferred stock	(281)	-	-	-
Net income applicable to common stock	$ 3,088	$ 3,369	$ 1,621	$ 1,621
Common stock	3,104	3,104	3,107	3,107
Common stock equivalents:				
Stock options	-	44	26	26
convertible preferred stock (based on a conversion price of $13.00)	-	858	-	-
Weighted average shares outstanding	3,104	4,006	3,133	3,133

Note 3: Contingencies

The Company's banking subsidiaries have an investment in an affiliated limited partnership (approximately $4,200,000 at March 31, 1992) which is involved in significant litigation. The Company, including certain of its banking subsidiaries, were named as co-defendants in the litigation; however, on July 17, 1991, a Summary Judgment was granted to dismiss all claims against the Company and its banking subsidiaries. The Summary Judgment is subject to the disposition of an appeal. Additionally, the affiliated limited partnership remains a defendant in the litigation.

The Company is also a defendant in various legal actions arising in the normal course of business. Management intends to vigorously contest these suits and believes that the ultimate liability, if any, resulting from these matters will not materially affect the Company's financial position.

Note 4: Acquisition

On March 20, 1992, one of the Company's subsidiaries, First National Bank at Lubbock, acquired certain assets (primarily cash equivalents and loans) and assumed certain liabilites (primarily customer deposits) of an insolvent savings association, First Federal Savings Association, Lubbock, Texas (First Federal). The transaction resulted in an increase in consolidated assets and liabilities of approximately $168 million at the date of acquisition.

The acquisition was accounted for as a purchase with the assets and liabilities recorded at their fair market value as of the purchase date. Accordingly, the accompanying consolidated condensed financial statements include the assets acquired and liabilities assumed from First Federal at March 31, 1992 and the results of operations from March 20, 1992.

The following proforma financial information combines the historical results of the Company and First Federal as if the acquisition had occurred at the beginning of each of the periods presented. The Company has certain options subsequent to the acquisition date including: (i) The option to put back to the seller certain loans acquired, (ii) The option to purchase certain premises and equipment and, (iii) The option to change the rates paid on customer deposits. Because of the affects these options may have on the operations of First Federal , the pro forma information may not be indicative of the results that actually would have occurred if the acquisition had been effected on the dates indicated. In addition, the pro forma financial information is not necessarily indicative of results which may be obtained in the future (in thousands, except per share amounts).

	Three Months Ended March 31,	
	1992	1991
Net interest income	$ 12,848	$ 9,237
Net income	3,713	2,045
Net income applicable to common shares	3,268	1,830
Earnings per share:		
Primary	1.05	.58
Fully diluted	.89	.58

FORD BANK GROUP, INC.
Financial Highlights

Dollars in thousands, except per share amounts	1992	1991	Increase (Decrease)	
			Amount	Percent
Earnings Summary:				
Three Months Ended March 31				
Interest income	$ 25,112	$ 24,877	$ 235	0.9
Interest expense	12,667	16,086	(3,419)	(21.3)
Net interest income	12,445	8,791	3,654	41.6
Provision for loan losses	411	492	(81)	(16.5)
Non-interest income	4,804	3,828	976	25.5
Non-interest expense	11,484	9,168	2,316	25.3
Income before income taxes	5,354	2,959	2,395	80.9
Income taxes	1,821	1,123	698	62.2
Net income	$ 3,533	$ 1,836	$ 1,697	92.4
Earnings per common share				
Primary	$ 0.99	$ 0.52	$ 0.47	90.4
Fully diluted	0.84	0.52	0.32	61.5
Key Performance Measures:				
Return on average assets	0.93%	0.57%	0.36%	63.2
Return on average common stockholders' equity	18.93%	11.33%	7.60%	67.1
Taxable-equivalent net interest margin	3.80%	3.25%	0.55%	16.9
Financial Condition:				
Daily averages for the three months ended March 31				
Total assets	$ 1,516,233	$ 1,285,754	$ 230,479	17.9
Total earning assets	1,330,085	1,121,967	208,118	18.5
Loans	629,505	505,915	123,590	24.4
Investment securities	509,449	361,106	148,343	41.1
Other earning assets	191,131	254,946	(63,815)	(25.0)
Total deposits	1,241,751	1,007,623	234,128	23.2
Stockholders' equity	86,732	67,565	19,167	28.4
At March 31				
Total assets	1,619,553	1,233,604	385,949	31.3
Total deposits	1,374,705	973,111	401,594	41.3
Long-term debt	38,109	32,053	6,056	18.9
Stockholders' equity	88,747	68,402	20,345	29.7
Book value per common share	21.67	18.73	2.94	15.7
Credit Risk Management:				
Three Months Ended March 31				
Allowance for loan losses	$ 20,011	$ 9,219	$ 10,792	117.1
As a percentage of period-end loans	3.10%	1.86%	1.24%	66.7
Net charge-offs for the three months ended March 31	$ 556	$ 152	$ 404	265.8
As a percentage of average loans	0.35%	0.12%	0.23%	194.4
Non-performing assets	$ 33,356	$ 35,110	$ (1,754)	(5.0)
As a percentage of loans and foreclosed real estate	5.02%	6.79%	(1.77)%	(26.1)
Capital Resources:				
Average stockholders' equity to average assets	5.72%	5.25%	0.47%	9.0
Tier 1 capital to risk adjusted assets	11.24%	10.01%	1.23%	12.3
Total capital to risk adjusted assets	13.32%	12.08%	1.24%	10.3
Tier 1 capital to adjusted total assets	5.09%	4.70%	0.39%	8.3

Financial Review

General Information

The Company

Ford Bank Group, Inc. (the "Company") is a multi-bank holding company headquartered in Lubbock, Texas. Formed in 1985, the Company now consists of eight banks in West and Central Texas. At March 31, 1992, the bank subsidiaries had 16 full-service banking facilities and employed 751 full-time equivalent employees. Substantially all of the Company's operating income is derived from its subsidiary banks.

Acquisitions

On March 20, 1992, one of the Company's subsidiaries, First National Bank at Lubbock (FNB-Lubbock) acquired certain assets (primarily cash equivalents and loans) and assumed certain liabilities (primarily customer deposits) of an insolvent savings association, First Federal Savings Association, Lubbock, Texas (First Federal). The transaction resulted in an increase in consolidated assets and liabilities of approximately $168 million at the date of acquisition. The acquisition was accounted for as a purchase with the assets and liabilities recorded at their fair market values as of the purchase date. Accordingly, the accompanying consolidated condensed financial statements and other financial information include the assets acquired and liabilities assumed of First Federal at March 31, 1992 and the results of operations from March 20, 1992.

On June 3, 1991 the Company acquired 80 percent of the outstanding capital stock of MBank Waco, N.A., Waco, Texas (the "Waco Bank"). The acquisition was accounted for as a purchase with the assets and liabilities recorded at their fair market values as of the purchase date. Accordingly, the accompanying consolidated condensed financial statements and other financial information include the assets and liabilities of the Waco Bank at March 31, 1992 and December 31, 1991 and the results of operations for the Waco Bank from June 3, 1991.

Results of Operations

Earnings Summary

Net income for the first quarter of 1992 improved significantly to $3,533,000 compared to $1,836,000 in the first quarter of 1991. Earnings per common share, on a primary basis, was $.98 for the first quarter of 1992 compared to $.52 for the first quarter of 1991. Key performance measures also improved in the first quarter of 1992. The return on average assets was .93 percent for the first quarter of 1992, compared with .57 percent in the same period last year. The Company achieved a return on average common stockholders' equity for the first quarter of 1992 of 18.93 percent, up from 11.33 percent in the same period last year. Key performance measures and other statistical information are summarized in Financial Highlights. The following sections provide a detailed discussion of changes in each of the major components of net income. The table on page 14 presents an analysis of the major components of net income.

Net Interest Income

The Company's major source of revenue is net interest income. Taxable-equivalent net interest income was $12,686,000 for the first quarter of 1992, up $3,583,000 or 39 percent from $9,103,000 a year-ago. The net interest margin for the current quarter was 3.80 percent compared to 3.25 percent in the same period of 1991. Average earning assets increased by $208,118,000 or 19 percent from the first quarter a year-ago. Presented on page 10 is a discussion of the increase in average earning assets. A detailed analysis of net interest income and net interest margins on a taxable-equivalent basis appears on pages 16 and 17.

In the first quarter, the earning assets mix, the relative ratio of each category of total earning assets, contributed significantly to the higher net interest margin. The percentage of average earning assets invested in loans, the highest yielding assets, increased. Additionally, there was a significant shift from lower yielding other earning assets (primarily Federal funds) to higher yielding investment securities. Presented on page 10 is a detailed discussion of average earning assets and interest bearing liabilities.

A decrease in non-performing assets also improved the net interest margin. Non-performing assets represented 2.20 percent and 2.73 percent of average total assets in the first quarter of 1992 and 1991, respectively. Additionally, non-interest bearing sources of funds, primarily non-interest bearing deposits, increased as a percentage of total sources of funds benefiting the net interest margin.

Partially offsetting these increases was a decrease in the effect of non-interest bearing sources of funds due to lower yields on earning assets in which these sources of funds were invested.

Provision for Loan Losses

The Company's provision for loan losses totaled $411,000 in the first quarter of 1992, compared to $492,000 a year-ago. Net charge-offs were only $556,000 for the current period resulting in a stable allowance for loan losses since year-end. In addition, the ratio of non-performing assets to the allowance for loan losses has improved since December 31, 1991. See page 11 for further details on the allowance for loan losses and non-performing assets, respectively.

Non-Interest Income

Non-interest income was $4,804,000 for the first quarter of 1992, an increase of $976,000 or 26 percent from $3,828,000 a year-ago. The table on page 14 provides a summary of the components of non-interest income. The Waco Bank acquisition contributed $552,000 to the increase in non-interest income.

Service charges on depositor accounts increased by $859,000 or 72 percent in the first quarter of 1992, primarily due to service charges at the Waco Bank of $429,000 in 1992. The remaining increase of $430,000 is attributable to an increased number of deposit accounts in the first quarter of 1992.

Gain on the disposition of acquired assets increased by $180,000 in the first quarter of 1992, compared to the same period of 1991. The amount of such gains will vary from period to period based on the results of loan workout arrangements completed during the period.

Non-Interest Expense

As shown on page 14, non-interest expense was $11,484,000 in the first quarter of 1992, compared to $9,168,000 for the same period a year-ago, an increase of $2,316,000 or 25 percent. Excluding non-interest expenses associated with the Waco Bank of $2,012,000, non-interest expenses have increased by 3 percent for the first quarter of 1992 over the same period a year-ago.

Each non-interest expense category has remained reasonably stable excluding the additional expenses associated with the Waco Bank, except other real estate losses and expenses. Such expenses have decreased by $169,000 in the current quarter, net of net other real estate income at the Waco Bank of $73,000. The decrease in the first quarter of 1992 is primarily due to reduced write-downs of other real estate properties, compared to the first quarter of 1991.

Income Taxes

The 1992 first quarter effective tax rate was 34 percent, a decrease from 38 percent in the first quarter of 1991. The effective tax rate for each interim period reflects the expected effective tax rate for the entire year. The effective tax rate may differ from the tax at statutory rates due to pre-acquisition losses utilized, tax-exempt income, state income taxes and the accounting for deferred income taxes under Statement of Financial Accounting Standards No. 96.

Financial Condition

The table on pages 18 and 19 sets forth the Company's consolidated average balance sheets and the related percentage of each caption to total average assets. Average balances are computed using daily balances for the periods presented. Changes in the percentages of the components of total average assets are discussed on page 9 in relation to its effect on net interest income.

Total Assets. Total average assets for the first quarter of 1992 increased significantly to $1,516 million, up $230 million, or 18 percent from the first quarter of 1991 average of $1,286 million. The increase is due to recent acquisitions. The acquisition of the Waco Bank in June, 1991 contributed $261 million to the average total assets for 1992. The acquisition of First Federal in March, 1992 added approximately $18 million to the first quarter 1992 average total assets. Except for the effects of acquisitions, total average assets decreased by $49 million for the quarter.

Loans. Total average loans, net of unearned discount, were $630 million for the current quarter, an increase of $124 million from the first quarter of 1991 average loans of $506 million. The Waco Bank average loans of $167 million accounts for the increase. First Federal average loans acquired were not significant to the quarter. Loans, excluding the Waco Bank acquisition, have decreased $43 million because of a continued lack of quality loan demand, coupled with the Company's strict lending policy.

Investment Securities. Total average investment securities increased by $148 million for the first quarter of 1992 totaling $509 million, compared to $361 million in the first quarter of 1991. The Waco Bank added $60 million to total average investment securities for the period. First Federal average investment securities were not significant to the quarter. The remainder of the increase in average investments of $88 million reflects the Company's shift from lower yielding other earning assets (primarily federal funds sold) to higher yielding investment securities.

Other Earning Assets. Other earning assets averaged $191 million for the first quarter of 1992, compared to $255 million in the first quarter of 1991, a $64 million decrease. In the first quarter 1991, a significant portion of the growth in earning assets was placed in other earning assets (primarily Federal funds sold) due to liquidity and the aforementioned lack of quality loan demand. During March of 1991, the Company began reinvesting a portion of Federal funds sold in investment securities due primarily to lower Federal funds rates and a more balanced investment policy.

Sources of Funds. Average interest bearing deposits increased by $190 million or 24 percent due to added Waco Bank deposits of $194 million. Average non-interest bearing deposits increased by $52 million or 26 percent with the Waco Bank accounting for $44 million of the increase. Additionally, short-term debt, including Federal funds purchased, decreased by $44 million for the quarter due to additional Federal Funds of area banks being handled on an agency basis.

Credit Risk Management

Allowance for Loan Losses. At March 31, 1992 the allowance for loan losses totaled $20,011,000 or 3.10 percent of loans then outstanding compared to $9,219,000 or 1.86 percent at March 31, 1991 and $20,156,000 or 3.09 percent at December 31, 1991. The Waco Bank had an allowance for loan losses of $12,153,000 at the date of acquisition. This addition combined with a current year provision for loan losses approximately equal to the net charge-offs has significantly increased the allowance for loan losses as a percent of loans since March 31, 1991. Management believes the allowance for loan losses is adequate to meet the present and potential credit risk in the current portfolio of loans. The table on page 15 presents an analysis of the allowance for loan losses.

Purchase Discount. In connection with the acquisition of Central National Branch of the First National Bank at Lubbock in March 1990, the excess of the estimated fair value of assets received over liabilities assumed represents a purchase discount of approximately $1,401,000 at March 31, 1992. The purchase discount has been applied to reduce the carrying value of the acquired assets. Since the acquired assets were recorded at their estimated fair value at the date of acquisition, the purchase discount represents an additional amount available to absorb losses, if any, on the disposition of acquired assets.

Net Loan Charge-offs. For the first quarter of 1992, charge-offs, net of recoveries were $556,000 or .35 percent on an annualized basis of average loans, compared to $152,000 or .12 percent on an annualized basis for the first quarter of 1991. In the first quarter of 1992, the Waco Bank had net charge-offs of $590,000 as the Company continued to apply its strict credit review policies to the Waco Bank's loan portfolio. Excluding the Waco Bank's net charge-offs, the Company had net recoveries of $34,000 for the quarter.

Non-Performing Loans and Other Problem Assets. At March 31, 1992, non-performing assets were $33,356,000, compared to $36,399,000 at December 31, 1991, a decrease of $3,043,000 or 8 percent. Non-performing assets represented 5.02 percent of total loans and foreclosed real estate at March 31, 1992 and 5.39 percent at December 31, 1991. Presented on page 15 is a table of the Company's non-performing assets and loans that are 90 days or more past due, but still accruing interest.

Non-Accrual Loans. Non-accrual loans decreased in the first quarter of 1992 by $1,130,000 or 9 percent from the 1991 balance. Approximately $440,000 in charge-offs of non-accrual loans occurred in the current period. Non-accrual loans also decreased by $1,100,000 for the period due to restoring some loans to accruing status and loan paydowns. The loans were restored to accruing status because the borrowers made significant payments, bringing the loans current and improving the collateral position. Additionally, approximately $1,300,000 in loans on non-accrual were foreclosed and placed in other real estate during the period. Partially offsetting these decreases was approximately $1,710,000 added to non-accrual status during the period.

Other Real Estate. At March 31, 1992, other real estate (ORE) acquired through formal or substantive foreclosures totaled $20,191,000 compared to $22,061,000 at December 31, 1991, a decrease of $1,870,000 or 8 percent. The primary reason for the decrease in ORE during the quarter was that approximately $2,000,000 in loans classified as in substance foreclosure (ISF) at December 31, 1991 were reclassified in the first quarter. The loans were removed from ISF status because of improved collateral positions and a continuing history of performance with the terms of the loan agreements.

Past Due Loans. Loans 90 days past due but not on non-accrual status were $1,941,000 at March 31, 1992 compared to $2,443,000 at December 31, 1991. The primary reasons for the reduction is that $350,000 in loans were 90 days past due at December 31, 1991, pending refinancing arrangements. These loan refinancings were completed in the first quarter of 1992.

Liquidity

The Company. An integral part of asset/liability management for a financial institution is the maintenance of adequate liquidity. Liquidity is the ability to meet deposit withdrawals and customers' borrowing needs in a timely manner and satisfy scheduled maturities of short-term borrowings. The Company does not have any material capital expenditure requirements at March 31, 1992. While funds are available to meet short-term liquidity needs from the Federal Reserve Bank and access to national Federal funds markets, the Company's primary source of liquidity is assets which can be immediately converted into cash.

Asset liquidity is provided primarily from cash and due from banks, money market investments and Federal funds sold and resale agreements. The aggregate of these assets averaged $313 million in the first quarter of 1992. Additionally, liquidity may be provided by marketable investment securities, particularly those maturing within one year. While the Company intends to hold its investment securities until maturity, sales prior to maturity could, if necessary, provide an additional source of liquidity. Funds from scheduled repayments and maturities of loans also provide a source of liquidity. The Company has no specific plans to sell loans to meet its liquidity needs at this time, however, such sales could provide an additional source of liquidity.

The liquidity position of the Company is strengthened by the subsidiary banks' stable core deposit base, including time deposits in excess of $100,000. Each subsidiary bank generates and maintains its deposit base within its own region and does not solicit brokered deposits or deposits outside its region. An additional source of liquidity strength is the market FNB-Lubbock has for Federal funds from area financial institutions.

Parent Company. The Parent Company has additional liquidity requirements to service debt in a timely manner, pay ongoing operating expenses and pay dividends on its preferred stock. The Parent Company's principal source of funds is payment of dividends and current tax liabilities from its subsidiary banks. At March 31, 1992, the subsidiary banks could have paid approximately $11,044,000 in dividends to the Company without obtaining prior approval from bank regulatory authorities. Management believes that the amount of dividends received from the subsidiary banks in the foreseeable future will be sufficient to meet the Parent Company's liquidity needs.

The Parent Company's long-term debt presents additional liquidity issues. The long-term Senior Notes restrict the assumption or issuance of additional indebtedness without the noteholders' prior approval and are subject to certain loan covenants. At March 31, 1992, the Company was in compliance with all covenants and the Company does not expect continued compliance with the loan covenants to have an adverse effect on future results of operations.

Capital Resources and Dividends

Capital Resources

A solid capital position in the banking industry generally provides a basis for public confidence in the entity, affords protection to depositors, helps to ensure continued access to capital markets on favorable terms and provides a strong foundation for future growth. Total stockholders' equity reached $88,747,000 at March 31, 1992, an increase of $3,070,000 over December 31, 1991. The increase reflects the retention of earnings, after $445,000 in preferred dividends for the quarter, representing an internal annualized growth rate of 14%.

Banking regulators capital adequacy guidelines include risk-based capital, ratios for two types of capital, Tier 1 (core capital) and Tier 2 (supplemental capital) and a leverage capital ratio. Presented below are the major components of capital and related actual and required minimum capital ratios:

COMPONENTS OF CAPITAL Dollars in thousands	March 31, 1992	December 31, 1991	Required Minimum
Tier 1 capital:			
Common equity	$67,249	$64,179	
Non-redeemable preferred stock	21,498	21,498	
Minority interest in the Waco Bank included in other liabilities	3,317	3,094	
Intangible assets	(10,203)	(10,232)	
Total Tier 1 capital	81,861	78,539	
Total Tier 2 capital:			
Subordinated debentures	5,755	5,755	
Allowance for loan losses, subject to certain limitations	9,024	9,140	
Total Tier 2 capital	14,779	14,895	
Total capital (Tier 1 and Tier 2)	$96,640	$93,434	
Tier 1 capital to risk adjusted assets	11.24%	11.06%	3.63%
Total capital to risk adjusted assets	13.32%	13.16%	7.25%
Tier 1 capital to adjusted total assets	5.09%	5.26%	3.00%

Dividends on Common Stock

The Company has not paid dividends on its common stock since inception and is restricted by Federal Reserve Board guidelines from paying dividends in the future until its debt to equity ratio is 30 percent or less. At March 31, 1992 the Company's debt to equity ratio was 40 percent. The Company currently plans to seek approval to pay a semi-annual common stock dividend beginning in June 30, 1992; however, there is no assurance that such approval will be granted and the amount of such dividends has not been determined.

FORD BANK GROUP, INC.
Consolidated Condensed Statements of Income

	1992	1991			
In thousands, except per share amounts	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest Income					
Loans including fees	$ 14,366	$ 15,141	$ 15,931	$ 13,671	$13,463
Investment securities	8,976	8,824	8,352	7,901	7,196
Other	1,770	2,064	2,343	2,327	4,218
Total interest income	25,112	26,029	26,626	23,899	24,877
Interest Expense					
Deposits	10,767	12,572	13,628	12,216	12,444
Short-term debt	1,028	1,188	1,300	1,755	2,872
Long-term debt	872	934	889	785	770
Total interest expense	12,667	14,694	15,817	14,756	16,086
Net Interest Income	12,445	11,335	10,809	9,143	8,791
Provision for loan losses	411	278	210	467	492
Net interest income after provision for loan losses	12,034	11,057	10,599	8,676	8,299
Non-Interest Income					
Trust fees	662	810	612	629	644
Service charges on depositor accounts	2,059	1,725	1,685	1,490	1,200
Other service charges, commissions and fees	452	502	502	479	530
Securities gains (losses), net	1	8	(589)	(775)	0
Gain on the disposition of acquired assets, net	1,424	1,357	1,108	936	1,244
Other	206	430	870	1,037	210
Total non-interest income	4,804	4,832	4,188	3,796	3,828
Non-Interest Expense					
Employees' compensation and benefits	5,271	5,225	4,927	4,400	4,113
Furniture and equipment	500	425	510	435	382
Net occupancy	619	95	579	462	463
Taxes, other than on income	90	597	131	123	166
Other real estate losses and expense	303	821	279	287	545
Data processing fees	1,010	1,097	1,031	801	687
Amortization of intangible assets	269	465	238	260	238
Other	3,422	3,456	3,411	2,919	2,574
Total non-interest expense	11,484	12,181	11,106	9,687	9,168
Income Before Income Taxes	5,354	3,708	3,681	2,785	2,959
Income taxes	1,821	1,265	1,010	127	1,123
Net Income	$ 3,533	$ 2,443	$ 2,671	$ 2,658	$ 1,836
Net income applicable to common shares	$ 3,088	$ 2,089	$ 2,342	$ 2,356	$ 1,621
Earnings per common share:					
Primary	$ .99	$ .68	$ .76	$ .75	$ .52
Fully diluted	$ .84	$ .64	$ .72	$ .74	$ .52

FORD BANK GROUP, INC.
Selected Quarterly Comparative Data

Dollars in thousands	1992 First Quarter	1991 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Analysis of Reserve for Loan Losses					
Balance at Beginning of Period	$ 20,156	$ 21,038	$ 21,048	$ 9,219	$ 8,879
Provision for loan losses	411	278	210	467	492
Other adjustments-Waco Bank Acquisition	—	—	—	12,153	—
Subtotal	20,567	21,316	21,258	21,839	9,371
Loans charged-off	956	1,377	770	979	302
Recoveries of loans previously charged-off	400	217	550	188	150
Net charge-offs	556	1,160	220	791	152
Balance at End of Period	$ 20,011	$ 20,156	$ 21,038	$ 21,048	$ 9,219
Ratios:					
Allowance for loan losses as a percentage of period-end loans	3.10%	3.09%	3.31%	3.25%	1.86%
Net charge-offs as a percentage of average loans (annualized)	0.35%	0.36%	0.14%	0.36%	0.12%
Non-Performing Loans and Other Problem Assets *End of Period*					
Non-accrual loans	$ 12,042	$ 13,172	$ 13,794	$ 13,298	$ 11,211
Restructured loans	1,123	1,166	3,566	3,398	2,847
Other real estate, net	20,191	22,061	22,268	24,454	21,052
Total non-performing assets	$ 33,356	$ 36,399	$ 39,628	$ 41,150	$ 35,110
Ratio of non-performing assets to:					
Total assets	2.06%	2.42%	2.86%	3.02%	2.85%
Total loans and foreclosed real estate	5.02%	5.39%	6.03%	6.13%	6.79%
Loans 90 days past due but not included in non-accrual loans	$ 1,941	$ 2,443	$ 4,237	$ 4,708	$ 1,600

FORD BANK GROUP, INC.
Analysis of Net Interest Income

Dollars in thousands	Three Months Ended March 31, 1992 Average Balance	Three Months Ended March 31, 1992 Interest Income/Expense	Three Months Ended March 31, 1992 Yield/Rate	Three Months Ended December 31, 1991 Average Balance	Three Months Ended December 31, 1991 Interest Income/Expense	Three Months Ended December 31, 1991 Yield/Rate	Three Months Ended September 30, 1991 Average Balance	Three Months Ended September 30, 1991 Interest Income/Expense	Three Months Ended September 30, 1991 Yield/Rate
Earning assets:									
Loans (1)	$ 629,505	$ 14,450	9.18%	$ 630,251	$ 15,231	9.67%	$ 631,215	$16,029	10.16%
Investment securities:									
Taxable	492,653	8,672	7.04	454,552	8,497	7.48	422,573	7,948	7.52
Tax-exempt	16,796	461	10.98	18,501	470	10.16	22,341	633	11.33
Total investment securities	509,449	9,133	7.17	473,053	8,967	7.58	444,914	8,581	7.71
Other earning assets	191,131	1,770	3.70	141,805	2,064	5.8[illegible]	144,049	2,343	6.51
Total earning assets	1,330,085	25,353		1,245,109	26,262		1,220,178	26,953	
Average yield			7.62			8.44			8.84
Allowance for loan losses	(19,472)			(20,055)			(20,268)		
Non-earning assets:									
Cash and due from banks	121,987			112,714			100,628		
Other assets	83,633			84,831			86,318		
Total assets	$ 1,516,233			$ 1,422,599			$ 1,386,856		
Interest bearing liabilities:									
Deposits	$ 987,409	$ 10,767	4.36	$ 978,503	$ 12,572	5.14	$ 969,753	$13,628	5.62
Short-term debt	134,801	1,028	3.05	65,669	1,188	7.24	63,214	1,300	8.23
Long-term debt	38,451	872	9.07	42,206	934	8.85	37,433	889	9.50
Total interest-bearing liabilities	1,160,661	12,667	4.37	1,086,378	14,694	5.41	1,070,400	15,817	5.91
Non-interest bearing sources of funds									
Non-interest bearing deposits	254,342			241,509			226,532		
Other liabilities	14,498			14,681			14,032		
Stockholders' equity	86,732			80,031			75,892		
Total liabilities and stockholders' equity	$ 1,516,233			$ 1,422,599			$ 1,386,856		
Net interest spread			3.25			3.03			2.93
Effect of non-interest bearing sources			0.55			0.69			0.72
Net interest income and margin		$ 12,686	3.80%		$ 11,568	3.72%		$11,136	3.65%
Taxable-equivalent adjustment (34% marginal tax rate)		$ 241			$ 233			$ 327	

(1) Loan fees are included for rate calculation purposes. The amount of such fees, however, is immaterial. Nonaccrual loans have been included in the average balances, thereby reducing yields.

Three Months Ended June 30, 1991			Three Months Ended March 31, 1991		
Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
$ 534,425	$ 13,753	10.29%	$ 505,915	$13,554	10.72%
391,404	7,450	7.61	337,204	6,772	8.03
25,189	661	10.50	23,902	645	10.79
416,593	8,111	7.79	361,106	7,417	8.22
144,351	2,327	6.45	254,946	4,218	6.62
1,095,369	24,191		1,121,967	25,189	
		8.83			8.98
(12,401)			(8,236)		
85,885			98,979		
78,975			73,044		
$1,247,828			$1,285,754		
$ 835,816	$ 12,216	5.85	$ 796,670	$12,444	6.25
102,156	1,755	6.87	178,900	2,872	6.42
34,030	785	9.23	32,053	770	9.61
972,002	14,756	6.07	1,007,623	16,086	6.39
195,544			202,132		
9,600			8,434		
70,682			67,565		
$1,247,828			$1,285,754		
		2.76			2.59
		0.69			0.66
	$ 9,435	3.45%		$ 9,103	3.25%
	$ 292			$ 312	

FORD BANK GROUP, INC.
Selected Quarterly Comparative Data

Dollars in thousands	1992 First Quarter Amount	1992 First Quarter Percent	1991 Fourth Quarter Amount	1991 Fourth Quarter Percent	1991 Third Quarter Amount	1991 Third Quarter Percent
Average Balance Sheets						
Earning assets:						
Loans	$ 629,505	41.5	$ 630,251	44.3	$ 631,215	45.5
Investment securities:						
Taxable	492,653	32.5	454,552	31.9	422,573	30.5
Tax-exempt	16,796	1.1	18,501	1.3	22,341	1.6
Total investment securities	509,449	33.6	473,053	33.2	444,914	32.1
Other earning assets	191,131	12.6	141,805	10.0	144,049	10.4
Total earning assets	1,330,085	87.7	1,245,109	87.5	1,220,178	88.0
Allowance for loan losses	(19,472)	(1.3)	(20,055)	(1.4)	(20,268)	(1.5)
Non-earning assets:						
Cash and due from banks	121,987	8.1	112,714	7.9	100,628	7.3
Other assets	83,633	5.5	84,831	6.0	86,318	6.2
Total assets	$ 1,516,233	100.0	$ 1,422,599	100.0	$ 1,386,856	100.0
Interest bearing liabilities:						
Deposits	$ 987,409	65.1	$ 978,503	68.8	$ 969,753	69.9
Short-term debt	134,801	8.9	65,669	4.6	63,214	4.6
Long-term debt	38,451	2.5	42,206	3.0	37,433	2.7
Total interest bearing liabilities	1,160,661	76.5	1,086,378	76.4	1,070,400	77.2
Non-interest bearing sources of funds:						
Deposits	254,342	16.8	241,509	17.0	226,532	16.3
Other liabilities	14,498	1.0	14,681	1.0	14,032	1.0
Stockholders' equity	86,732	5.7	80,031	5.6	75,892	5.5
Total liabilities and stockholders' equity	$ 1,516,233	100.0	$ 1,422,599	100.0	$ 1,386,856	100.0

1991			
Second Quarter		First Quarter	
Amount	Percent	Amount	Percent
$ 534,425	42.8	$ 505,915	39.3
391,404	31.4	337,204	26.2
25,189	2.0	23,902	1.9
416,593	33.4	361,106	28.1
144,351	11.6	254,946	19.8
1,095,369	87.8	1,121,967	87.2
(12,401)	(1.0)	(8,236)	(0.6)
85,885	6.9	98,979	7.7
78,975	6.3	73,044	5.7
$ 1,247,828	100.0	$ 1,285,754	100.0
$ 835,816	67.0	$ 796,670	62.0
102,156	8.2	178,900	13.9
34,030	2.7	32,053	2.5
972,002	77.9	1,007,623	78.4
195,544	15.7	202,132	15.7
9,600	0.8	8,434	0.7
70,682	5.6	67,565	5.2
$ 1,247,828	100.0	$ 1,285,754	100.0

FORD BANK GROUP, INC.

OFFICERS

Executive Management

Gerald J. Ford
Chairman of the Board
Chief Executive Officer

Tom C. Nichols
President
Chief Operating Officer

Gary Fletcher
Senior Vice President

Finance

C. David Sharp
Senior Vice President

Charles D. Roberson
Vice President/Controller

Beverly J. Gaines
Assistant Vice President

Deanna R. Wilde
Assistant Vice President

Credit Administration

David Kirk
Senior Vice President

Ronald Simpson
Vice President

Jim Bryan
Vice President

Lawrence Bertsch
Assistant Vice President

Mark Vaughn
Loan Review Officer

Nanette Fletcher
Loan Review Officer

Tom Burress
Loan Review Officer

Shane Salyer
Loan Review Officer

Operations

Dan Messamore
Vice President

Steve Casella
Vice President/Investments

Sharon Brewer
Assistant Vice President

Internal Audit

David Keene
Senior Vice President

Scott Vick
Vice President/Audit Manager

Jeff Greenhill
Audit Officer

BOARD OF DIRECTORS

Gerald J. Ford
Chairman of the Board and
Chief Executive Officer
Ford Bank Group, Inc.

Tom C. Nichols
President and Chief Operating Officer
Ford Bank Group, Inc.
Chairman of the Board,
President & Chief Executive Officer
First National Bank at Lubbock

Paul M. Bass, Jr.
Executive Vice President
First Southwest Company

Bob Bullock
Lieutenant Governor
State of Texas

Berry Cash
Berry Cash Southwest
Partnership (BCSP)
Venture Capital

J.C. Chambers
Insurance

Gary Fletcher
Senior Vice President
Ford Bank Group, Inc.
President
Central National Branch of
First National Bank at Lubbock

Giles M. Forbess
President
Benton Oil Company

J. Owen Gilbreath
President
R.C. Young Grain &
Seed Company

James G. Morris, M.D.
Physician

Robert Nichols
Chairman of the Board
Conley-Lott-Nichols

Leonard M. Riggs, Jr., M.D.
President
EmCare, Inc.

Carl Sewell
President
Sewell Village Cadillac

Bill J. Smith
B.J. Farms, Inc.
Farming and Investments

John M. Tye III
President
The Tye Company
Manufacturing

SUBSIDIARY BANKS

First National Bank of Borger
Borger, Texas
Jack King, President

First National Bank in Canyon
Canyon, Texas
Charles Baughman, President

First National Bank of Central Texas
Waco, Texas
Monte R. Hulse, Chairman of the Board and Chief Executive Officer
Clyde D. Martin, President

First State Bank, Crane
Crane, Texas
Jamey Collinsworth, President

First National Bank at Lubbock
Lubbock, Texas
Tom C. Nichols, President

First National Bank of Plainview
Plainview, Texas
Kim King, President

First National Bank, Post
Post, Texas
Charles Hardin, President

Yoakum County State Bank
Denver City, Texas
O.L. Cooper, President

GENERAL INFORMATION

Form 10-Q

Stockholders wishing to receive the Form 10-Q Quarterly Report filed with the Securities and Exchange Commission may obtain a copy without charge by writing to the Company at the corporate address.

Transfer Agent
Ford Bank Group, Inc.
1500 Broadway, Suite 301
P.O. Box 5240
Lubbock, Texas 79417-5240

Corporate Address
Ford Bank Group, Inc.
1500 Broadway, Suite 301
P.O. Box 5240
Lubbock, Texas 79417-5240

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 1992 **Commission File Number 2-54754**

General American Transportation Corporation

Incorporated in the State of New York	**IRS Employer Identification No. 36-2827991**

120 South Riverside Plaza
Chicago, Illinois 60606-3998
312/621-6200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ____

Registrant had 1,000 shares of common stock outstanding (all owned by GATX Corporation) as of July 31, 1992.

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PART I--FINANCIAL INFORMATION

GENERAL AMERICAN TRANSPORTATION CORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

In Millions

	Three Months Ended June 30		Six Months Ended June 30	
	1992	1991	1992	1991
Gross income	$142.5	$140.2	$282.9	$277.9
Costs and expenses				
Operating expenses	62.1	57.7	123.8	114.8
Interest	24.8	25.4	49.2	51.4
Provision for depreciation and amortization	25.3	24.4	50.5	48.8
Selling, general and administrative	9.0	11.1	18.1	21.1
	121.2	118.6	241.6	236.1
Income before income taxes, equity in net earnings of affiliated companies and cumulative effect of accounting changes	21.3	21.6	41.3	41.8
Income taxes	7.7	6.7	15.1	12.9
Income before equity in net earnings of affiliated companies and cumulative effect of accounting changes	13.6	14.9	26.2	28.9
Equity in net earnings of affiliated companies	3.5	3.5	7.9	7.1
Income before cumulative effect of accounting changes	17.1	18.4	34.1	36.0
Cumulative effect of accounting changes	-	-	(6.7)	-
Net income	$ 17.1	$ 18.4	$ 27.4	$ 36.0

GENERAL AMERICAN TRANSPORTATION CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

In Millions

ASSETS

	June 30 1992 (Unaudited)	December 31 1991
Cash and cash equivalents	$ 3.1	$ 6.0
Trade receivables - net	33.2	36.3
Property, plant and equipment		
Railcars and support facilities	1,720.7	1,691.9
Tank storage terminals and pipelines	926.0	890.4
	2,646.7	2,582.3
Less - Allowances for depreciation	1,084.9	1,038.6
	1,561.8	1,543.7
Due from GATX Corporation	360.1	338.8
Investments in affiliated companies	137.8	132.5
Other assets	78.9	78.9
	$ 2,174.9	$ 2,136.2

LIABILITIES, DEFERRED ITEMS AND SHAREHOLDER'S EQUITY

	June 30 1992 (Unaudited)	December 31 1991
Accounts payable	$ 67.2	$ 65.9
Accrued expenses	41.8	40.8
Debt		
Short-term debt	114.1	78.7
Long-term debt	794.8	808.8
Capital lease obligations	137.0	139.0
	1,045.9	1,026.5
Deferred income taxes	238.8	303.4
Other deferred items	179.4	105.7
Total liabilities and deferred items	1,573.1	1,542.3
Shareholder's equity		
Common Stock - par value $1 per share; 1,000 shares authorized, issued and outstanding (owned by GATX Corporation)	-	-
Additional capital	335.0	335.0
Reinvested earnings	256.4	247.9
Cumulative foreign currency translation adjustment	10.4	11.0
Total shareholder's equity	601.8	593.9
	$ 2,174.9	$ 2,136.2

GENERAL AMERICAN TRANSPORTATION CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

In Millions

	Three Months Ended June 30		Six Months Ended June 30	
	1992	1991	1992	1991
OPERATING ACTIVITIES				
Net income	$ 17.1	$ 18.4	$ 27.4	$ 36.0
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for depreciation and amortization	25.3	24.4	50.5	48.8
Deferred income taxes	2.2	.9	4.8	2.5
Cumulative effect of accounting changes	-	-	6.7	-
Other (includes working capital)	4.1	6.9	1.2	(1.6)
NET CASH PROVIDED BY OPERATING ACTIVITIES	48.7	50.6	90.6	85.7
INVESTING ACTIVITIES				
Additions to property, plant and equipment:				
Railcars and support facilities	(24.4)	(23.9)	(38.5)	(48.3)
Tank storage terminals and pipelines	(18.6)	(21.2)	(35.3)	(34.9)
Investments in affiliated companies	-	-	-	(2.9)
Capital additions	(43.0)	(45.1)	(73.8)	(86.1)
Proceeds from other asset dispositions	1.2	1.1	2.5	3.0
NET CASH USED IN INVESTING ACTIVITIES	(41.8)	(44.0)	(71.3)	(83.1)
FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt	-	-	77.5	-
Repayment of long-term debt	(27.5)	(32.6)	(93.0)	(42.7)
Net increase in short-term debt	42.3	48.7	35.4	37.3
Capital lease obligation activity	-	-	(1.9)	(1.8)
Cash dividends paid to GATX Corporation	(9.5)	(9.8)	(18.9)	(19.5)
Net increase in amount due from GATX Corporation	(13.0)	(12.3)	(21.3)	(22.4)
NET CASH USED IN FINANCING ACTIVITIES	(7.7)	(6.0)	(22.2)	(49.1)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (.8)	$ .6	$ (2.9)	$(46.5)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1992

Note A - General

The consolidated balance sheet at December 31, 1991 has been derived from the audited financial statements at that date. All other consolidated financial statements are unaudited, but include all adjustments, consisting only of normal recurring items, which management considers necessary for a fair statement of the consolidated results of operations and financial position for the respective periods. Operating results for the three and six months ended June 30, 1992 are not necessarily indicative of the results that may be achieved for the entire year ending December 31, 1992. Certain amounts in the 1991 financial statements have been reclassified to conform to the 1992 presentation.

Note B - Changes in Accounting Principles

a) Change in Accounting Principles

General American Transportation Corporation (GATC) has implemented Statement of Financial Accounting Standards (SFAS) No. 106 - "Employers' Accounting for Postretirement Benefits Other Than Pensions" using the immediate recognition transition method, effective as of January 1, 1992.

SFAS No. 106 requires recognition during an employee's active service of the cost of postretirement benefits, primarily health and life insurance benefits. GATC's previous practice was to expense these costs as they were paid. GATC recorded a charge of $44.5 million ($68.6 million pretax) in the first quarter of 1992 to reflect the cumulative effect of the change in accounting principle for periods prior to 1992. Aside from the one-time effect of the adjustment, adoption of SFAS No. 106 was not material to 1992 quarterly or year-to-date financial results.

GATC provides health care, life insurance and other benefits for certain retired employees who meet established criteria. Most domestic employees are eligible for health care and life insurance benefits if they retire from GATC with immediate pension benefits under the GATX pension plan. The plans are either contributory or non-contributory, depending on the type of benefit.

Estimated net periodic postretirement benefit cost for 1992 includes the following components (in millions):

Current service cost	$ .2
Interest cost on accumulated postretirement benefit obligation	5.6
Net periodic postretirement benefit cost	$5.8

Prior to 1992, the cost of providing health care and life insurance benefits to retired employees was recognized as expense primarily as payments were made. These costs totaled $6.0 million and $5.7 million for the years 1991 and 1990, respectively.

The following table sets forth the transition obligation determined as of January 1, 1992 which was recognized in the consolidated balance sheet as of March 31, 1992 (in millions):

Accumulated postretirement benefit obligation:	
Retirees	$63.5
Fully eligible active plan participants	2.5
Other active plan participants	2.6
Total accrued postretirement benefit obligation	$68.6

For measurement purposes, blended rates ranging from 15% decreasing to 5% over the next six years and remaining at that level thereafter were used for the increase in the per capita cost of covered health care benefits. The health care cost trend rate assumption has a significant effect on the amount of the obligation and periodic cost reported. An increase in the assumed health care cost trend rates by 1% would increase the accumulated postretirement benefit obligation by $5.0 million and would increase aggregate service and interest cost components of net periodic postretirement benefit cost by $.5 million per year.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 9.0%.

b) Change in Method of Accounting for Deferred Income Taxes

Effective January 1, 1992, GATC adopted SFAS 109, "Accounting for Income Taxes." This Statement requires, among other things, that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of the financial statements. The cumulative effect of the adoption of this Statement was to increase first quarter 1992 net income by $37.8 million.

MANAGEMENT'S DISCUSSION OF OPERATIONS

COMPARISON OF FIRST SIX MONTHS OF 1992 TO FIRST SIX MONTHS OF 1991

GENERAL

General American Transportation Corporation's (GATC's) net income for the first six months of 1992 was $27 million compared to net income of $36 million for the first half of 1991. The year-to-date 1992 results were reduced by $7 million due to a one-time non-cash net accounting charge for postretirement benefits and deferred taxes which was recorded in the first quarter.

Gross income increased 2% over the comparable 1991 period due to modestly higher revenues at the domestic terminal facilities, partially offset by slightly lower miscellaneous revenues at Transportation. Income before the cumulative effect of accounting changes decreased $2 million as a result of higher repair and operating expenses at Transportation, partially offset by improved operating results at Terminals.

In the first quarter of 1992, GATC implemented Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and SFAS No. 109, Accounting for Income Taxes. SFAS No. 106 requires that certain postretirement benefits, principally health care and life insurance, be recognized in the financial statements on an accrual basis rather than on a pay-as-you-go basis. GATC recorded a one-time aftertax charge of $45 million for the transition obligation related to the implementation of this Standard. The principal change resulting from SFAS No. 109 is the recording of deferred taxes at amounts ultimately considered payable which resulted in a $38 million favorable adjustment. The implementation of these standards increased deferred items on the balance sheet by $69 million, decreased deferred taxes by $62 million and decreased shareholder's equity by $7 million. There was no cash flow impact from this net charge to earnings.

Cash provided by operating activities of $91 million increased $5 million principally as a result of an increase in working capital. Net income adjusted for non-cash items generated $89 million of cash, up $2 million from the first six months of 1991.

Capital additions of $74 million in the first half of 1992 decreased $12 million from the first half of 1991. Capital additions in 1992 included $39 million of railcars and railcar improvements at Transportation and $35 million of facility improvements at Terminals. Full year 1992 capital spending is forecasted to be approximately $215 million compared to $187 million in 1991. A portion of the 1992 expenditures may not be effected depending on market conditions. It is anticipated that capital expenditures will be funded by both internally generated funds and GATC's available external financing sources.

GATC had unused committed lines of credit totaling $120 million under a revolving credit agreement at June 30, 1992 of which $75 million is alternatively available to GATX for acquisition purposes only. In addition, General American Transportation Corporation has a $350 million shelf registration, under which $133 million of debentures and medium-term notes have been issued. GATC did not issue any medium-term notes nor any other long-term debt during the quarter.

RESULTS OF OPERATIONS

Following is a discussion of the operating results of GATC's business segments:

RAILCAR LEASING AND MANAGEMENT (TRANSPORTATION)

(In Millions)	Six Months Ended June 30		Change	
	1992	1991		
Gross Income	$ 142.0	$ 143.5	$(1.5)	(1)%
Income Before Cumulative Effect of Accounting Changes	$ 22.9	$ 28.0	$(5.1)	(18)%
Net Income	$ 29.1	$ 28.0	$ 1.1	4 %

Transportation's gross income of $142 million for the first half of 1992 decreased slightly from 1991 reflecting lower miscellaneous income primarily due to the prior year sale of its interest in a Mexican affiliate. Railcar rental income increased modestly due to a higher average rental rate; average cars on lease declined slightly from the prior year. Fleet utilization at June 30, 1992 was 93% on a fleet size of 53,800 railcars compared to 94% on a fleet size of 53,300 a year ago.

The decline in income from operations primarily reflects a modest decline in operating margins due to higher inspection and repair costs and lower interest rates on invested funds. The average cost per railcar repaired has increased due to several inspection and repair programs. The adoption of SFAS No. 109 increased net income by $39 million while the adoption of SFAS No. 106 decreased net income by $33 million.

TERMINALS AND PIPELINES

(In Millions)	Six Months Ended June 30 1992	Six Months Ended June 30 1991	Change	
Gross Income	$ 130.1	$ 121.7	$ 8.4	7 %
Income Before Cumulative Effect of Accounting Changes	$ 11.2	$ 8.0	$ 3.2	40 %
Net Income	$ 6.5	$ 8.0	$(1.5)	(19)%

Terminals' 1992 gross income increased $8 million from the first six months of 1991. This increase is the result of the completion of a number of capital projects and strong results at many domestic operations. In addition, Terminals' 1991 revenues were adversely affected by market uncertainties caused by the Persian Gulf War. Throughput of 316 million barrels for the first six months of 1992 decreased 12 million barrels from the first six months of 1991 reflecting changes in the operations of certain customers. Utilization was 88% at June 30, 1992 compared to 84% a year ago.

Terminals' income from operations of $11 million grew $3 million from the 1991 comparable period. Terminals' increased results represent improved contributions due to domestic facility improvements, an increase in margins resulting from cost controls, and increased earnings at certain foreign affiliates. Equity in net earnings of affiliated companies of $6 million increased $1 million from the 1991 first six months primarily as a result of increased demand at the Singapore facilities, partially offset by decreased results at a United Kingdom affiliate. The adoption of SFAS No. 109 increased net income by $3 million while the adoption of SFAS No. 106 decreased net income by $8 million.

ACCOUNTING CHANGES

The effect of adopting SFAS No. 106 and SFAS No. 109 on net income for each of GATC's segments is:

		Cumulative Effect of Accounting Changes			
	Income Before Cumulative Effect of Accounting Changes	SFAS 106 OPEB	SFAS 109 Deferred Taxes	Net Income	Net Income
In Millions	Six Months Ended June 30, 1992				1991
Railcar Leasing & Management	$ 22.9	$(32.5)	$ 38.7	$ 29.1	$ 28.0
Terminals and Pipelines	11.2	(7.7)	3.0	6.5	8.0
Other	-	(4.3)	(3.9)	(8.2)	-
Total consolidated amounts	$ 34.1	$(44.5)	$ 37.8	$ 27.4	$ 36.0

COMPARISON OF SECOND QUARTER 1992 TO SECOND QUARTER 1991

GROSS INCOME

(In Millions) Business Segment	Three Months Ended June 30 1992	 1991	Change	
Railcar Leasing and Management	$ 71.0	$ 73.1	$ (2.1)	(3)%
Terminals and Pipelines	65.5	61.1	4.4	7

NET INCOME

(In Millions) Business Segment	Three Months Ended June 30 1992	 1991	Change	
Railcar Leasing and Management	$ 11.8	$ 14.5	$ (2.7)	(19)%
Terminals and Pipelines	5.3	3.9	1.4	36

Increases and decreases in gross income and net income between these quarters for both segments were principally due to the same reasons discussed previously in relation to the six-month periods, except for the implementation of FASB's No. 106 and No. 109 during the first quarter of 1992.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

In February, 1992, GATC filed a notice of appeal from a verdict of approximately $11.9 million rendered against it in the matter of Queen City Terminals, Inc., Sohio Oil Company and BP Chemicals American, Inc. vs. GATC and Trinity Industries, Inc. (No. A85-04982) in the Court of Common Pleas for Hamilton County, Ohio. The suit arose out of the leak of benzene from railcars in Cincinnati, Ohio. The amount of the verdict, less insurance coverages, has been adequately reserved.

As previously reported, a railcar owned by GATC was involved in a derailment near Dunsmuir, California in July 1991 that resulted in a spill of metam sodium into the Sacramento River. Various lawsuits seeking damages in unspecified amounts have been filed against GATC, or an affiliated company, all of which have been consolidated in the Superior Court of the State of California for the City and County of San Francisco (Nos. 2617 and 2620). In addition, in February 1992 Southern Pacific Transportation Corporation filed a suit against GATX and others in the United States District Court, Central District of California (No. 92 1296), seeking contribution and damages in unspecified amounts arising from this incident. GATC has also been named as a potentially responsible party by the State of California with respect to the assessment and remediation of possible damages to natural resources. It is the opinion of management that if damages are assessed and taking into consideration the probable insurance recovery, this matter will not have a material effect on GATC's consolidated financial position or results of operations.

GATC has previously reported that a number of lawsuits have been filed in the Superior Court for the State of California, and served on Terminals, Calnev Pipe Line Company ("Calnev"), or another GATX subsidiary, each seeking an unspecified amount of damages arising out of the May 1989 explosion of a portion of Calnev's pipeline in San Bernardino, California. A suit has also been filed in the County of San Bernardino, entitled Southern Pacific Transportation Corporation vs. Calnev Pipe Line Company, et al, (No. 251310) in September 1989, seeking declaratory relief as to certain provisions contained in the agreement covering the right of way granted to Calnev by the Southern Pacific. In addition, GATC is aware of approximately 25 other cases (the majority involving multiple plaintiffs) seeking damages arising out of this incident, which have named as defendants either a subsidiary of GATC or a subsidiary officer. None of these additional cases have been served on either the GATC subsidiary or a subsidiary officer. Based upon information known to management, it remains management's opinion that if damages are assessed and taking into consideration probable insurance recovery, the ultimate resolution of these lawsuits will not have a material effect on GATC's consolidated financial position or results of operations.

Item 6.		Exhibits and Reports on Form 8-K.	Page
(a)	12	Statement regarding computation of ratios of earnings to fixed charges.	14
(b)		No reports on Form 8-K were filed during the reporting period.	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAL AMERICAN TRANSPORTATION CORPORATION
(Registrant)

/s/D. Ward Fuller
D. Ward Fuller
President, Chief Executive Officer
and Director
(Duly Authorized Officer)

/s/ Donald J. Schaffer
Donald J. Schaffer
Vice President, Finance
(Chief Financial Officer)

Date: August 11, 1992

Exhibit 12

GENERAL AMERICAN TRANSPORTATION CORPORATION

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Unaudited)
(In millions except for ratios)

	Three Months Ended June 30		Six Months Ended June 30	
	1992	1991	1992	1991
Earnings available for fixed charges:				
Net income	$17.1	$18.4	$27.4	$36.0
Add (deduct):				
Income taxes	7.7	6.7	15.1	12.9
Cumulative effect of accounting changes	-	-	6.7	-
Equity in net earnings of affiliated companies, net of dividends received	(2.6)	(2.5)	(6.3)	(5.4)
Interest on indebtedness and amortization of debt discount and expense	24.8	25.4	49.2	51.4
Amortization of capitalized interest	.3	.2	.5	.4
Portion of rents representative of interest factor (deemed to be one-third)	2.0	1.4	4.0	2.7
Total earnings available for fixed charges	$49.3	$49.6	$96.6	$98.0
Fixed Charges:				
Interest on indebtedness and amortization of debt discount and expense	$24.8	$25.4	$49.2	$51.4
Capitalized interest	.7	.7	1.4	1.4
Portion of rents representative of interest factor (deemed to be one-third)	2.0	1.4	4.0	2.7
Total fixed charges	$27.5	$27.5	$54.6	$55.5
Ratio of earnings to fixed charges(A)	1.79x	1.80x	1.77x	1.77x

---

(A) The ratios of earnings to fixed charges represents the number of times "fixed charges" are covered by "earnings." "Fixed charges" consist of interest on outstanding debt and capitalized interest, one-third (the proportion deemed representative of the interest factor) of rentals, and amortization of debt discount and expense. "Earnings" consist of consolidated income from ongoing operations before income taxes and fixed charges less equity in net earnings of affiliated companies, net of dividends received.

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Integral Systems

5000 Philadelphia Way
Suite A
Lanham, Maryland 20706-4417
(301) 731-4233
Fax #(301) 731-9606

INTEGRAL SYSTEMS, INC.

10Q

FOR QUARTER ENDED JUNE 30, 1992

A

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By
Q-Data
Corporation
St. Petersburg, FL

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 1992 or

____ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ________ to ________

Commission file number 33-22395

Integral Systems, Inc.
(Exact name of registrant as specified in its charter)

Maryland	52-1267968
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5000 Philadelphia Way, Suite A, Lanham, MD	20706
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (301) 731-4233

____
(Former name, address and fiscal year, if changed since last report)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

As of June 30, 1992 the aggregate market value of the Common Stock of the Registrant (based upon the average bid and ask prices of the Common Stock as reported by the market makers) held by non-affiliates of the Registrant was $6,375,263.

Registrant had 917,570 shares of common stock outstanding as of June 30, 1992.

B

INTEGRAL SYSTEMS, INC.

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Item 1. Financial Statements

INTEGRAL SYSTEMS, INC.
BALANCE SHEETS
JUNE 30, 1992 & SEPTEMBER 30, 1991

ASSETS

	June 30, 1992	Sept. 30, 1991
Current assets:		
Cash	$2,326,095	$2,144,870
Investments	780,000	480,000
Accounts receivable (Notes 2 & 3)	1,773,324	2,450,335
Prepaid expenses	9,576	5,380
Income tax receivable	61,308	94,693
Total current assets	4,950,303	5,175,278
Fixed assets:		
Electronic equipment	411,368	380,386
Furniture and fixtures	69,567	75,082
Leasehold improvements	12,696	12,696
Software systems	37,997	27,680
	531,628	495,844
Less: accumulated depreciation and amortization	(291,386)	(299,910)
Total fixed assets	240,242	195,934
Other assets:		
Software development costs	322,335	206,639
Deposits	1,044	10,438
Total other assets	323,379	217,077
Total assets	$5,513,924	$5,588,289

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.
BALANCE SHEETS
JUNE 30, 1992 & SEPTEMBER 30, 1991

LIABILITIES

	June 30, 1992	Sept. 30, 1991
Current liabilities:		
Accounts payable - trade	$ 97,000	$ 477,979
Accrued expenses	600,130	505,537
Billings in excess of cost	346,018	84,733
Payroll taxes payable	74,166	179,105
Retirement plan payable	125,690	138,258
Income taxes payable	-	82,640
Total current liabilities	1,243,004	1,468,252
Long term liabilities:		
Deferred taxes	-	58,454
Total liabilities	1,243,004	1,526,706
Stockholders' equity:		
Common stock, $.01 par value, 2,000,000 shares authorized, and 917,570 and 914,370 shares issued and outstanding at June 30, 1992 and September 30, 1991 respectively	9,176	9,144
Additional paid-in capital	494,909	478,591
Retained earnings	3,766,835	3,573,848
Total stockholders' equity	4,270,920	4,061,583
Total liabilities and stockholders' equity	$5,513,924	$5,588,289

INTEGRAL SYSTEMS, INC.

STATEMENT OF OPERATIONS

	Nine Months Ended June 30,		Three Months Ended June 30,	
	1992	1991	1992	1991
Contract revenue	$6,636,179	$8,156,840	$2,067,889	$2,714,910
Cost of revenue:				
Direct labor	2,554,702	2,486,460	834,766	829,492
Direct equipment/ subcontracts	1,262,189	2,331,571	387,087	772,941
Travel & other direct costs	280,294	107,122	59,029	29,273
Overhead expenses	1,797,855	1,656,855	566,310	522,762
Total cost of revenue	5,895,040	6,582,008	1,847,192	2,154,468
Gross profit	741,139	1,574,832	220,697	560,442
Operating expenses:				
General & admin. exp.	478,453	545,820	229,736	216,447
Total operating expenses	478,453	545,820	229,736	216,447
Income (loss) from oper.	262,686	1,029,012	(9,039)	343,995
Other income (expense):				
Interest income	73,587	98,579	26,338	42,936
Interest expense	(10,751)	(36)	(10,751)	-
Other income (expense)	(16,135)	(15,839)	8,593	(4,098)
Total other income (exp.)	46,701	82,704	24,180	38,838
Income before taxes	309,387	1,111,716	15,141	382,833
Provision for income taxes	116,400	429,300	5,100	147,800
Net income	$ 192,987	$ 682,416	$ 10,041	$ 235,033
Weighted average number of common shares outstanding during the period	915,503	913,170	916,070	914,370
Net income per share	$.21	$.75	$.01	$.26

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.

STATEMENT OF CASH FLOW

	For the Nine Months Ended June 30, 1992	1991
Cash flows from operating activities:		
Net income	$ 192,987	$ 682,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,203	88,051
Increase (decrease) in income taxes payable	(107,709)	(191,027)
Net (increase) decrease in receivables, prepaid expenses, accrued expenses, accounts payable, and other current liabilities	530,207	748,090
Total adjustments	536,701	645,114
Net cash provided (used) by operations	729,688	1,327,530
Cash flows from investing activities:		
Acquisition of fixed assets	(130,580)	(115,276)
Increase in other assets	(134,233)	(155,235)
Acquisition of Treasury Bills	(300,000)	-
Net cash used in investing activities	(564,813)	(270,511)
Cash flows from financing activities:		
Proceeds (retirement of) from issuance of short term debt	-	(3,222)
Proceeds from issuance of common stock	16,350	12,750
Net cash provided by (used in) financing activities	16,350	9,528
Net increase (decrease) in cash	181,225	1,066,547
Cash - beginning of year	2,144,870	1,714,262
Cash - end of period	$2,326,095	$2,780,809

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED

JUNE 30, 1992

	Number of Shares	Common Stock at Stated Value	Additional Paid-in Capital	Retained Earnings	Total
Balance, September 30, 1991	914,370	$9,144	$478,591	$3,573,848	$4,061,583
Exercise of Stock Option	3,200	32	16,318	-	16,350
Net income	-	-	-	192,987	192,987
Balance, June 30, 1992	917,570	$9,176	$494,909	$3,766,835	$4,270,920

See Notes to Financial Statements

INTEGRAL SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The interim financial statements include the accounts of Integral Systems, Inc. (ISI) and, in the opinion of management, reflect all adjustments consisting only of normal recurring accruals necessary for a fair presentation of results for such periods. The financial statements, which are condensed and do not include all disclosures included in the annual financial statements, should be read in conjunction with the consolidated financial statements of the Company for the fiscal year ended September 30, 1991. The results of operations for any interim period are not necessarily indicative of results for the full year.

2. Accounts Receivable

Accounts receivable at June 30, 1992 and September 30, 1991 consist of the following:

	June 30, 1992	September 30, 1991
Billed	$ 754,508	$ 976,251
Unbilled	1,018,816	1,474,084
	$1,773,324	$2,450,335

The Company uses the direct write-off method for bad debts.

The Company's accounts receivable consist of amounts due on prime contracts with the U.S. Government and subcontracts with various private organizations that have contracts with the U.S. Government. Unbilled accounts receivable consist principally of amounts that are billed in the month following the incurrence of cost. All unbilled receivables are expected to be billed and collected within one year.

3. Line-of-Credit

The Company has a line of credit agreement with a local bank for $1,000,000. Borrowing under the line of credit bears interest at the bank's lending rate plus one-quarter of one percentage point per annum. Any accrued interest is payable monthly. At June 30, 1992 and September 30, 1991 the Company had no outstanding balance under the line of credit.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTHS ENDED JUNE 30, 1992 TO THE NINE MONTHS ENDED JUNE 30, 1991

The components of the Company's income statement as a percentage of revenue are depicted in the following table for the nine months ended June 30, 1992 and 1991:

	1992 (000's omitted)	% of Revenue	1991 (000's omitted)	% of Revenue
Revenue	$6,636	100.0	$8,157	100.0
Expenses				
Cost of revenue	5,895	88.8	6,582	80.7
General & admin.	479	7.2	546	6.7
Other	(47)	(0.7)	(83)	(1.0)
Income taxes	116	1.8	429	5.3
Total expenses	6,443	97.1	7,474	91.7
Net income	$ 193	2.9	$ 683	8.3

Revenue decreased by approximately $1.5 million between the nine months ended June 30, 1992 and the nine months ended June 30, 1991, principally because the Company delivered approximately $1.1 million less equipment and subcontracts to its customer base during the current period.

Cost of revenue as a percentage of revenue for the fiscal year 1992 period was 88.8% compared to 80.7% for the comparable period in fiscal year 1991. The increase resulted principally as the Company invested direct cost dollars of approximately $590,000 in the production and promotion of new software products which it has begun to market. These costs were in addition to capitalized software development costs of approximately $147,000 incurred during fiscal year 1992 to date. It is important to note that the Company has begun to change the focus of its business towards the development and marketing of proprietary technological software products that it believes are viable in Governmental, commercial and international sectors. Although no assurances can be provided, the Company is hopeful of generating significant revenues from these products within the next six to twelve months. In fact the Company believes that at least one major award for several of its new products is imminent.

G&A expense, while lower in dollars spent was higher as a percentage of revenue in fiscal year 1992 vs. fiscal year 1991, principally due to the lower revenue base in the current year.

Finally, net income was adversely affected during the current year by the recognition of a loss of approximately $240,000 in the third quarter on a particular fixed price contract. This particular contract is now complete and accordingly, the Company believes the loss is of a non-recurring nature.

COMPARISON OF THE QUARTER ENDED JUNE 30, 1992 TO THE QUARTER ENDED JUNE 30, 1991

The components of the Company's income statement as a percentage of revenue are depicted in the following table for the quarter ended June 30, 1992 and 1991:

	1992 (000's omitted)	% of Revenue	1991 (000's omitted)	% of Revenue
Revenue	$2,068	100.0	$2,715	100.0
Expenses				
Cost of revenue	1,847	89.3	2,154	79.3
General & admin.	230	11.1	217	8.0
Other	(24)	(1.2)	(39)	(1.4)
Income taxes	5	.3	148	5.5
Total expenses	2,058	99.5	2,480	91.4
Net income	$ 10	.5	$ 235	8.6

Revenue decreased by approximately $650,000 between the quarter ended June 30, 1992 and the quarter ended June 30, 1991, principally because the Company delivered approximately $390,000 less equipment and subcontracts to its customer base during the current quarter.

Cost of revenue as a percentage of revenue for the third quarter of fiscal year 1992 was 89.3% compared to 79.3% for the comparable period in fiscal year 1991. The increase resulted principally as the Company invested significant direct cost dollars in the production and promotion of new software products which it has begun to market. These costs were in addition to capitalized software development costs of approximately $45,000 incurred during the third quarter. It is important to note that the Company has begun to change the focus of its business towards the development and marketing of proprietary technological software products that it believes are viable in Governmental, commercial and international sectors. Although no assurances can be provided, the Company is hopeful of generating significant revenues from these products within the next six to twelve months.

During the third quarter of fiscal year 1992 G&A expense increased slightly in real dollar terms over the comparable period in fiscal year 1991 due to multiple bid and proposal efforts during the current quarter.

Finally, but perhaps most significantly current year performance was adversely affected by a one-time loss of approximately $240,000 recognized on a particular fixed price contract during the quarter.

Liquidity and Capital Resources

ISI has been profitable since its inception in 1982 and has been able to generate adequate cash flow from operations to fund its operating and capital expenses. To supplement operating cash flows, ISI has access to a line of credit facility of $1,000,000 which is currently unused. (See Note 3 of the Notes to Financial Statements).

In July, 1988 the Company raised approximately $400,000 (net) through the sale of 110,000 common shares in its initial public offering.

As a result of its current cash reserves, its unused line of credit facility and its continued projected profitable earnings, ISI believes it will have adequate cash to meet its obligations for the foreseeable future.

In terms of capital purchases, historically ISI has funded such items through operating cash flow or capital lease. The Company currently has no plans for major capital purchases for the remainder of fiscal year 1992, although as stated above, the Company plans to continue to invest development dollars in its new software products.

Part II. Other Information

6. Exhibits and Reports an Form 8-K

a. Exhibits

none

b. Form 8-K

On July 6, 1992 the Company filed a Form 8-k announcing certain management and board of director changes.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRAL SYSTEMS, INC.
(Registrant)

Date: August 6, 1992

By: /s/
Steven R. Chamberlain
Chairman of the Board

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 1992

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from: ______________ to ______________

Commission File No.: 0-14053

PROCESSED BY
MAY 18 1992
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Q-Data Corp. - St. Petersburg, FL

13/13 D

KIRSCHNER MEDICAL CORPORATION
(Exact name of registrant as specified in i

DELAWARE
(State or other jurisdiction of incorporation or organization)

52-1319702
(I.R.S. Employer Identification No.)

9690 DEERECO ROAD
TIMONIUM, MARYLAND 21093
(Address of principal executive offices)

(410) 560-3333
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

Common Stock $.10 par value, outstanding as
of May 13, 1992 - 2,493,108 shares

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KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (UNAUDITED)	December 31, 1991 (AUDITED)
ASSETS		
Current assets:		
Cash	$ 461,000	$ 1,492,000
Accounts receivable	21,779,000	21,007,000
Inventories (note 2)	27,391,000	27,747,000
Prepaid expenses	935,000	418,000
Total current assets	50,566,000	50,664,000
Property, plant and equipment:		
Property, plant and equipment, at cost	18,529,000	18,898,000
Less accumulated depreciation and amortization	(6,986,000)	(6,652,000)
Property, plant and equipment, net	11,543,000	12,246,000
Intangible assets, net	9,360,000	9,489,000
Other assets	2,132,000	2,291,000
Total assets	$73,601,000	$74,690,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$18,684,000	$20,566,000
Current portion of long-term debt	22,837,000	24,005,000
Current portion of capital lease obligations	475,000	543,000
Accounts payable	5,143,000	4,607,000
Accrued liabilities	7,619,000	6,432,000
Income taxes payable	847,000	681,000
Total current liabilities	55,605,000	56,834,000
Long-term liabilities:		
Long-term debt	11,000	12,000
Capital lease obligations	2,035,000	2,270,000
Other	149,000	181,000
Total long-term liabilities	2,195,000	2,463,000
Deferred income taxes	465,000	499,000
Shareholders' equity:		
Preferred stock, no par value; authorized 200,000 shares; none issued	-	-
Common stock, $.10 par value, authorized 10,000,000 shares; issued 2,493,108 shares at March 31, 1992 and 2,483,608 shares at December 31, 1991	249,000	248,000
Additional paid-in capital	27,784,000	27,689,000
Cumulative foreign currency translation adjustments	1,477,000	2,136,000
Accumulated deficit	(14,174,000)	(15,179,000)
Total shareholders' equity	15,336,000	14,894,000
Total liabilities and shareholders' equity	$73,601,000	$74,690,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31, 1992	1991
Revenues	$18,595,000	$18,095,000
Cost of sales	7,181,000	7,556,000
Gross profit	11,414,000	10,539,000
Operating expenses:		
Selling	5,364,000	5,278,000
Administrative	2,643,000	2,238,000
Research and development	757,000	543,000
Total operating expenses	8,764,000	8,059,000
Operating profit	2,650,000	2,480,000
Net interest expense and other	1,324,000	1,453,000
Income before income tax provision and extraordinary item	1,326,000	1,027,000
Provision for income taxes	513,000	357,000
Income before extraordinary item	813,000	670,000
Extraordinary item	192,000	-
Net income	$ 1,005,000	$ 670,000
Earnings per share:		
Income before extraordinary item	$ .32	$ .27
Net income	$ .39	$ .27
Weighted average common and common equivalent shares outstanding	2,577,000	2,479,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Three months ended March 31,	
	1992	1991
Common stock:		
Balance at beginning of period	$ 248,000	$ 245,000
Issuance of 37,000 shares in 1991	-	3,000
Issuance of 9,500 shares in 1992	1,000	-
Balance at end of period	$ 249,000	$ 248,000
Additional paid-in capital:		
Balance at beginning of period	$ 27,689,000	$ 27,511,000
Additional paid-in capital in connection with issuance of 37,000 shares	-	162,000
Additional paid-in capital in connection with issuance of 9,500 shares	95,000	-
Balance at end of period	$ 27,784,000	$ 27,673,000
Cumulative foreign currency translation adjustments:		
Balance at beginning of period	$ 2,136,000	$ 2,366,000
Translation adjustments during period	(659,000)	(969,000)
Balance at end of period	$ 1,477,000	$ 1,397,000
Accumulated deficit:		
Balance at beginning of period	$(15,179,000)	$(19,380,000)
Net income	1,005,000	670,000
Balance at end of period	$(14,174,000)	$(18,710,000)
Treasury stock:		
Balance at beginning of period	$ -	$ (75,000)
Proceeds from sale of 2,490 shares	-	39,000
Balance at end of period	$ -	$ (36,000)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31, 1992	1991
Cash flows from operating activities:		
Net income	$ 1,005,000	$ 670,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	442,000	507,000
Amortization	203,000	175,000
Loss on sale of assets	3,000	14,000
Changes in certain assets and liabilities:		
Accounts receivable	(1,911,000)	(3,449,000)
Inventories	(473,000)	912,000
Prepaid expenses and other assets	(472,000)	(443,000)
Accounts payable and accrued liabilities	2,008,000	1,826,000
Income taxes payable	207,000	56,000
Net cash provided by operating activities	1,012,000	268,000
Cash flows from investing activities:		
Capital expenditures	(135,000)	(208,000)
Proceeds from sale of property and equipment	384,000	-
Other	9,000	-
Net cash provided by (used for) investing activities	258,000	(208,000)
Cash flows from financing activities:		
Net proceeds (repayments) of short-term debt, including net borrowings under line of credit agreements	(1,166,000)	282,000
Proceeds from long-term debt	41,000	-
Repayment of long-term debt	(1,122,000)	(326,000)
Principal payments under capital lease obligations	(144,000)	(164,000)
Proceeds from issuance of common stock	96,000	165,000
Proceeds from sale of treasury stock	-	39,000
Net cash used for financing activities	(2,295,000)	(4,000)
Net effect of exchange rate changes on cash	(6,000)	(7,000)
Net increase (decrease) in cash	(1,031,000)	49,000
Cash at beginning of period	1,492,000	459,000
Cash at end of period	$ 461,000	$ 508,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - PRINCIPLES OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's 1991 Annual Report on Form 10-K.

NOTE 2 - INVENTORIES

Inventories are comprised of the following:

	March 31, 1992	December 31, 1991
Finished goods	$13,964,000	$14,979,000
Work in process	8,250,000	7,346,000
Raw materials	5,177,000	5,422,000
Total inventories	$27,391,000	$27,747,000

NOTE 3 - SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

	Three months ended March 31, 1992	1991
Cash paid for:		
Interest	$ 1,338,000	$ 1,641,000
Income taxes	113,000	316,000
Additions to obligations under capital leases	-	228,000

NOTE 4 - LITIGATION

Legal actions filed by alleged shareholders between March 22, 1990 and April 25, 1990 are pending against the Company and certain of its then directors and officers with respect to alleged violations of federal securities laws and state common laws.

On July 30, 1991, a legal action was filed with the American Arbitration Association in Washington, D.C. against the Company by the former owners of M.P. Video, Inc., a wholly-owned subsidiary of the Company, alleging securities fraud and breach of contract.

In the opinion of management, after consultation with counsel, the ultimate outcome of these actions cannot be presently determined, nor can any possible estimate of loss, if any, be made.

The Company intends to continue to defend these cases vigorously.

KIRSCHNER MEDICAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations
Three Months Ended March 31, 1992 and 1991

The following table presents the Company's operating results as a percentage of revenues:

	Three Months Ended March 31,	
	1992	1991
Revenues	100.0%	100.0%
Cost of sales	38.6	41.7
Gross profit	61.4	58.3
Selling expense	28.9	29.2
Administrative expense	14.2	12.4
Research and development expense	4.1	3.0
Operating profit	14.2	13.7
Net interest expense and other	7.1	8.0
Income before income tax provision and extraordinary item	7.1	5.7
Provision for income taxes	2.7	2.0
Income before extraordinary item	4.4	3.7
Extraordinary item	1.0	-
Net income	5.4%	3.7%

Income before extraordinary item was $813,000 or $.32 per share as compared to $670,000 or $.27 per share for the same quarter of the prior year.

Revenues increased by 3% to $18,595,000 compared to $18,095,000 in the first quarter of 1991. Reconstructive implant and fracture fixation product sales increased by $741,000 or 6% over the first quarter of 1991. For this comparison, sales of veterinary orthopedic products of $455,000 in the first quarter of 1991 were excluded, as the product line was sold by the Company in December 1991. Continued increases in sales of the Company's Performance Knee products were partially offset by reduced sales in certain other reconstructive implant and fracture fixation products.

The remaining increase in total revenues was due primarily to increased sales of orthopedic support products. Sales of medical video endoscopy systems were approximately the same as the previous year's quarter.

Gross profit for the three months ended March 31, 1992 was 61% of sales compared to 58% for the same quarter of the prior year. The increase was due primarily to improved margins on sales of reconstructive implant and fracture fixation products.

Total operating expenses increased by $705,000 or 9% over the same period last year. Administrative expenses accounted for 57% of the dollar increase and research and development expenses accounted for 30%. The increase in administrative expenses was due primarily to office relocation costs associated with the sale of the Company's Timonium, Maryland facility as well as an increase in professional fees related to the Company's efforts to raise capital to solve its liquidity problems. Research and development expenses increased mostly due to royalties on increased sales of the Company's Performance Knee product.

Net interest expense and other decreased by $129,000 due primarily to lower interest rates and the repayment of debt to the Company's primary lender over the last twelve months.

The effective income tax rate for the quarter ended March 31, 1992 was 39% as compared to 35% for the same period last year. The increase is due to the higher proportion of domestic taxable income, which is taxed at higher rates than foreign taxable income.

The extraordinary item for the three months ended March 31, 1992 represents the reduction of income taxes arising from the utilization of prior years' U.S. net operating loss carryforwards.

In February 1992, the Financial Accounting Standards Board issued Statement 109, "Accounting for Income Taxes," which supersedes Statement 96 of the same title, and which is effective for fiscal years beginning after December 15, 1992, or earlier at the Company's option. Statement 109 employs an asset and liability approach in accounting for income taxes payable or refundable at the date of the financial statements as a result of events that have been recognized in the financial statements and as measured by the provisions of enacted tax laws. The Company has not determined whether Statement 109 will be adopted before 1993 and whether it will be adopted on a prospective or retroactive basis. However, adoption is not expected to have a material impact on the Company's financial position and results of operations.

Liquidity and Capital Resources

Current liabilities exceeded current assets by $5,039,000 at March 31, 1992 and by $6,170,000 at December 31, 1991. The decrease in the working capital deficit was due primarily to the principal payments made on the Company's term loan with its primary lender.

The Company is required to make scheduled mandatory prepayments of its senior debt obligations pursuant to the loan agreement with the Company's primary lender. The prepayments are due on June 30, 1992, September 30, 1992 and December 31, 1992 in the amounts of $3,500,000, $10,000,000 and $1,700,000, respectively. Management believes that the Company will be unable to make these mandatory prepayments without obtaining additional capital.

The Company's subsidiary in Spain, IQL, continues to experience severe cash constraints largely as a result of slow payments from various Spanish governments. IQL continues to obtain working capital by factoring accounts receivable with a Spanish bank and by borrowing from various banking institutions and private lenders. Approximately $1,600,000 of cash was obtained by IQL during the first quarter of 1992 through the factoring agreement. As of the date of this report, certain of IQL's borrowing arrangements with various banking institutions had matured and remain unpaid. No events of default have been declared by the lenders with respect to these loans. The lenders have verbally extended the due dates while the Company negotiates renewals or payment schedules. In addition, the maturity of a long-term note in the amount of 95 million Spanish pesetas (approximately $923,000 as of May 1, 1992) previously due on May 30, 1992 has been extended by the lender to August 31, 1992 in consideration for the granting of a security interest in the Company's Madrid, Spain sales office property.

A $5,453,000 subordinated note issued to Minnesota Mining and Manufacturing Company ("3M") was due on March 23, 1990 but was not paid on such date. The Company used $500,000 of the proceeds from the sale of its discontinued operations in 1990 to reduce the balance to $4,953,000. The Company is current on its quarterly interest payments to 3M. The note is subordinate to all senior debt obligations and cannot be declared in default or accelerated without the primary lender's prior consent.

The Company is currently operating with a limited amount of cash and its continued existence is dependent upon its ability to resolve its liquidity problems and meet its debt obligations. The Company is continuing its efforts to obtain additional capital in order to meet its debt obligations and refinance its existing senior indebtedness. The successful realization of these efforts is critical to the resolution of the Company's liquidity problems. However, there is no assurance that sufficient additional capital will be obtained or that the Company will be able to refinance its existing debt.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KIRSCHNER MEDICAL CORPORATION
(Registrant)

By
C. Scott Harrison, M.D.
President, CEO and
Chairman of the Board

By Lewis Parker
Lewis E. S. Parker
Senior Vice President, Chief
Financial Officer and
Treasurer

Date: 5/13/92

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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

L5a

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1991

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number ~~1-17874~~ 33-29746

L.A. ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

Nevada	88-0199674
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

401 East Pine Street, Seattle, Washington 98122
(Address of principal executive offices) (Zip Code)

(310) 277-8942/Attention: Elaine Melnyk

(Former name, former address and former fiscal year, if changed since last year report.)

Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

As of December 31, 1991, there were 40,050,000 shares of Company's $.001 Par Common Stock outstanding, its only class of Common Stock.

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L. A. ENTERTAINMENT, INC.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

L.A. ENTERTAINMENT, INC.
BALANCE SHEETS

ASSETS	UNAUDITED 12/31/91	3/31/91
CURRENT:		
Cash	$13,230	$11,000
Accounts receivable, less allowance for doubtful accounts, $5,000	197,893	59,986
Other Receivables (Note 5)	390,000	0
Prepaid Expenses	34,486	18,793
Total Current Assets	635,609	89,779
RENTAL VIDEOCASSETTE LIBRARY, at cost less accumulated depreciation of $2,866,827 and $2,785,124	930,670	923,499
FURNITURE AND EQUIPMENT, net	189,910	267,860
	$1,756,189	$1,281,139

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
BALANCE SHEETS
(Concluded)

LIABILITIES AND SHAREHOLDERS' EQUITY	UNAUDITED 12/31/91	3/31/91
CURRENT LIABILITIES		
Current portion of notes payable, banks (Note 3)	$ 4,169	$ 86,206
Trade accounts payable	204,533	264,327
Accrued Expenses	284,851	325,038
Capital lease obligations, current portion	0	17,681
Total Current Liabilities	493,553	693,252
DEFERRED INCOME (Note 5)	285,000	0
NOTES PAYABLE SHAREHOLDERS	0	73,540
DUE TO OFFICERS AND AFFILIATE	442,433	47,833
Total Liabilities	1,220,985	814,625
SHAREHOLDERS' EQUITY		
Preferred stock, $.001 par value; authorized 20,000,000 shares; issued and outstanding, 2,642,468 (aggregate liquidation preference of $766,316)	2,643	2,643
Common stock, $.001 par value; authorized 200,000,000 shares; issued and outstanding 40,050,000	40,050	40,050
Additional paid-in capital	2,263,195	2,263,195
Accumulated Deficit	(1,738,210)	(1,806,900)
Treasury stock, at cost (500,000 shares of common stock)	(32,475)	(32,475)
TOTAL SHAREHOLDERS' EQUITY	535,203	466,513
	$1,756,189	$1,281,138

"See Accompanying Notes to Financial Statements"

I.A. ENTERTAINMENT, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
December 31, 1991 AND 1990

	UNAUDITED 12/31/91	UNAUDITED 12/31/90
GROSS RENTAL REVENUES	$400,618	$562,121
GROSS SALES REVENUES	6,348	12,747
Total gross rental and sales revenue	406,966	574,868
CONCESSION COMMISSIONS	117,826	158,760
COST OF VIDEO AND AUDIOCASSETTES SOLD	0	0
Total concession commissions and cost of video and audiocassettes sold	117,726	158,760
Net rental and sales revenue	289,240	416,108
OPERATING EXPENSES:		
Concession and store operating costs	139,691	122,649
Videocassette library depreciation	122,269	141,731
General and administrative	192,242	159,928
Total operating costs and expenses	454,202	424,308
Operating (loss) income	(164,962)	(8,200)
OTHER INCOME (EXPENSE):		
Interest expense	(8,247)	0
Miscellaneous income	153,133	13,835
NET INCOME (LOSS)	$(20,076)	$5,635
NET INCOME PER SHARE OF COMMON STOCK	$ 0	$ 0
Weighted average number of common shares outstanding	40,050,000	32,900,000

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED
December 31, 1991 AND 1990

	UNAUDITED 12/31/91	UNAUDITED 12/31/90
GROSS RENTAL REVENUES	$1,373,352	$1,805,204
GROSS SALES REVENUES	18,396	46,203
Total gross rental and sales revenue	1,391,748	1,851,407
CONCESSION COMMISSIONS	393,285	520,774
COST OF VIDEO AND AUDIOCASSETTES SOLD	0	0
Total concession commissions and cost of video and audiocassettes sold	393,285	520,774
Net rental and sales revenue	998,463	1,330,663
OPERATING EXPENSES:		
Concession and store operating costs	446,793	413,418
Videocassette library depreciation	313,970	426,849
General and administrative	381,975	439,371
Total operating costs and expenses	1,142,738	1,279,638
Operating (loss) income	(144,275)	50,995
OTHER INCOME (EXPENSE):		
Interest expense	(19,898)	(15,746)
Miscellaneous income (Note 5)	290,076	16,576
NET INCOME (LOSS)	$125,903	$51,995
NET INCOME PER SHARE OF COMMON STOCK	$ 0	$ 0
Weighted average number of common shares outstanding	40,050,000	32,900,000

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED December 31, 1991 AND 1990

Increase (decrease) in cash

	UNAUDITED 12/31/91	UNAUDITED 12/31/90
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 939,933	$1,255,299
Cash paid to suppliers and employees	(979,619)	(835,994)
Interest paid	(19,898)	(12,804)
Net cash provided by operating activities	(59,584)	406,501
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(298,350)	(468,596)
Proceeds from sale of assets	65,282	37,200
Net cash used in investing activities	(233,068)	24,895)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable to bank	(82,037)	(47,362)
Payments on capital leases	(17,681)	(44,774)
Increase (decrease) in due to officers and affiliates	394,600	69,007
Net cash provided by (used in) financing activities	2,230	(48,024)
CASH, beginning of period	11,000	49,063
CASH, end of period	$13,230	$1,039

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED
(Concluded)
December 31, 1991 AND 1990
Increase (decrease) in cash

	UNAUDITED 12/31/91	UNAUDITED 12/31/90
RECONCILIATION OF NET (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net (loss) income	$125,903	$ 51,825
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	431,711	532,050
Gain on sale of video library cassettes & Auto	(6,103)	0
Misc. Income Related to Litigation Settlements (Note 5)	(283,973)	0
Increase (decrease) from changes in:		
Accounts receivable	(137,907)	(75,334)
Prepaid expenses	(15,693)	2,603
Trade accounts payable	(59,795)	(35,193)
Accounts payable, affiliates	(73,540)	69,007
Accrued expenses	(40,187)	(46,321)
Long Term Liability	0	(92,136)
	(327,122)	(477,374)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$(59,584)	$406,501

"See Accompanying Notes to Financial Statements"

L.A. ENTERTAINMENT, INC.
NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 1991 AND 1990

1. Basis of Presentation

The accompanying financial information is unaudited. However, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim period.

The results of operations for the nine month period ended December 31, 1991 are not necessarily indicative of the results to be expected for the full year.

2. Earnings per share

Earnings per share have been computed by dividing net income by the weighted average number of shares.

3. Notes Payable, Bank

The Company entered into a Line of Credit agreement with an affiliated company in the amount of $400,000. A portion of this was used to pay off the note to Key Bank of Puget Sound, all Capital Leases, as well as to settle some impending litigation.

4. Dividends Payable

During the three months ended December 31, 1991, the company declared dividends of $28,607 on its preferred shares. Management anticipates that the dividend will be paid through the issuance of additional preferred shares.

5. Other Receivable

The Company is currently involved in a lawsuit with a former director relating to stock that was fraudulently obtained and sold. It is management's opinion that The Company will prevail in this litigation. Accordingly, The Company has provided for a receivable in the amount of $590,000.00 (the cash realized from the sale of the stock in the approximate amount of $500,000 has been interpleaded and is being held by the court pending the outcome of this case - $90,000 has been accrued for the remainder of the stock that was canceled due to this litigation) and an allowance for litigation costs of $200,000.00. The company has currently paid for all litigation costs and this figure is a conservative estimate for future possible costs. The net result of this total transaction is reflected as deferred income with an adjustment of the prior years costs in other income.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial position and operating results during the periods included in the accompanying consolidated financial statements.

Results of Operations

Nine Months Ended December 30, 1991 versus Nine Months Ended December 31, 1990

Sales and Cost of Sales:

Rental Revenues.

Gross revenues from rental transactions were $1,373,352 for the nine months ended December 31, 1991 as compared to $1,805,204 for the same period in 1990. This represented a 23.9% decrease in revenues for stores operating for the comparable period. This decrease in revenues is attributable to the consolidation of the concession base due to several Safeway closures and the recession.

Sales Revenues.

Gross revenues from sale transactions were $18,396 for the nine months ended December 31, 1991 as compared to $46,203 for the same period in 1990. These revenues were derived from the sale of used rental tapes and missing tape billings to the concessions.

Sales Growth.

The company has been aggressively seeking to expand its video rental concession base. To that end, it has targeted the Washington and Oregon supermarket chains for presentations. It is also seeking to implement sales programs in new concessions opened. The Company will also continue to explore opportunities to acquire other companies which operate video rental or compatible businesses.

Miscellaneous Income.

At March 31, 1991, certain accruals were set up to allow for potential settlement payments relating to impending litigation. Several of the impending law suits were settled for an amount less than the amount accrued. The reduced liability resulted in miscellaneous income for the period. (See Note 5) The company entered into an overhead sharing arrangement with an affiliate of the company resulting in additional miscellaneous income.

Operating Income.

The Company had operating loss of $144,275 for the nine months ended December 31, 1991 as compared to an operating income of $ 51,825 for the same period in 1990. The decrease in operating income was primarily due to the recession and the closure of some of the larger revenue generating locations.

Operating Costs, General and Administrative Expenses.

The Company incurred store and concession operating costs of $446,793 for the nine months ended December 31, 1991 as compared to $413,418 for the same period in 1990.

General and administrative costs were $381,975 for the nine month period ended December 31, 1991, as compared to $439,371 for the comparable period for 1990. This decrease was due primarily to decreased travel and legal expenses.

For the nine months ended December 31, 1991, the Company experienced an overall decrease of $43,303 for salaries and related expenses as compared to the same period for 1990, as a result of the Company reducing its corporate staff and related expenses to more accurately reflect the support necessary for the existing business. However, audit and legal expenses have increased due to the companies successful efforts to settle impending litigation as well as expand its operations.

Three Months Ended December 31, 1991 versus Three Months Ended December 31, 1990

Sales and Cost of Sales:

Rental Revenues.

Gross revenues from rental transactions were $400,618 for the three months ended December 31, 1991 as compared to $562,121 for the same period in 1990. This represented a 28.8% decrease in revenue for the stores operating in the comparable period. As previously described, the Company involuntarily closed several higher revenue generating locations and opened a like number of new but smaller locations.

Sales Revenues.

Gross revenues from sale transactions were $6,348 for the three months ended December 31, 1991 as compared to $12,747 for the same period in 1990. Sales for the current period were derived principally from the Company's efforts to sell previously viewed video tapes in its Seattle retail location and missing movie billings to the concessions.

Liquidity and Capital Resources:

At December 31, 1991 the Company had a working capital surplus of $142,056, as compared with working capital deficit of $474,171 as of December 31, 1990.

For the nine month period ending December 31, 1991, the Company invested $381,789 in inventory of new videocassette tapes for use in the Company's concession operations. This compares to an investment of $484,842 for the same period in 1990. The decrease is due to a smaller concession base. Inventory is purchased as a direct percentage of rental revenues which also decreased, in turn leading to a decrease in total investment.

The Company is dealing with its tape suppliers on a cash on delivery basis, but is current in payments. The Company is trying to acquire trade credit.

At December 31, 1991 the Company had paid its Note to Key Bank in full as well as the Capital Leases to Republic Leasing.

The Company entered into a Line of Credit with an affiliated company in the amount of $400,000 on July 16, 1991, which allows for draws at the Company's request. At December 31, 1991, $400,000 had been drawn on this Line of Credit. The amount outstanding becomes payable plus interest at 12% on January 15, 1993.

Marutaka Acquisition

The company has entered into an agreement to acquire the shares of Marutaka, Inc. Ltd. and certain related companies. This agreement is subject to various conditions including the satisfactory completion of an audit.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

The company has settled various litigations subsequent to year end namely:

1. Lieberman - the Company entered into a stipulated judgment in the approximate net amount of $190,000, which required the company to make monthly payments to satisfy such amount. The Company made partial payments thereon, and settled this matter in July, 1991 by a payment of $100,000.

2. East Texas Distributors - the Company settled the original claims of $15,000 and $10,000 respectively for $15,000 (payable at $500.00 per month) and $7,000.00 which was paid in August, 1991.

3. Ingram - The Company settled the original claim of $26,000 for $20,000.00. $10,000 was paid in August, 1991.

Item 2. Changes in Securities

(a) None

(b) None

Item 3. Defaults Upon Senior Securities

(a) None

(b) None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

L.A. ENTERTAINMENT, INC.
Registrant

March 24, 1992
Date

By: Daniel Lezak, President

March 24, 1992
Date

By: Elaine Melnyk, VP Finance

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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92-2270

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarter ending March 31, 1992 Commission File Number 0-13147

LESCO, Inc.
(Exact name of registrant as specified in its charter)

OHIO (State or other jurisdiction of incorporation or organization)	34-0904517 (I.R.S. Employer Identification Number)

20005 Lake Road
Rocky River, Ohio
(Address of principal executive offices)

44116
(Zip Code)

(216) 333-9250
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the latest practical date.

Class	Outstanding at May 11, 1992
Common stock without par value	4,167,533 shares

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PART I - FINANCIAL STATEMENTS

LESCO, INC.
BALANCE SHEETS

	March 31 1992	March 31 1991	December 31 1991
ASSETS			
Current Assets:			
Cash	$ 969,786	$ 714,885	$ 426,436
Accounts receivable - net	40,951,146	35,749,919	29,674,831
Inventories	39,518,775	34,893,509	36,400,099
Prepaid expenses and other assets	3,557,265	2,766,991	4,106,590
Total Current Assets	84,996,972	74,125,304	70,607,956
Property, Plant and Equipment	30,477,351	26,458,108	29,300,720
Less allowance for depreciation and amortization	(12,432,028)	(10,154,516)	(11,824,529)
	18,045,323	16,303,592	17,476,191
Other Assets	2,012,269	1,880,043	1,999,736
TOTAL ASSETS	$105,054,564	$ 92,308,939	$ 90,083,883
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 30,509,346	$ 22,868,136	$ 15,759,918
Note payable		6,000,000	6,000,000
Other current liabilities	2,360,681	923,742	3,242,306
Current portion of long-term debt	200,000	600,000	525,000
Total Current Liabilities	33,070,027	30,391,878	25,527,224
Long-term Debt-net of current portion	45,342,566	38,345,162	38,441,608
Deferred Federal Income Taxes	1,258,000	1,699,000	1,258,000
Shareholders' Equity:			
Preferred shares-without par value-authorized 500,000 shares			
Common shares - without par value-4,162,133 shares issued; 4,157,633 outstanding at March 31, 1992, 4,095,808 at March 31, 1991, 4,109,108 at December 31, 1991	416,213	410,081	411,361
Paid-in capital	4,963,654	4,397,002	4,517,610
Retained earnings	20,041,576	17,107,452	19,965,552
Less treasury shares	(37,472)	(41,636)	(37,472)
Total Shareholders' Equity	25,383,971	21,872,899	24,857,051
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$105,054,564	$ 92,308,939	$ 90,083,883

LESCO, INC.
STATEMENTS OF INCOME

	THREE MONTHS ENDED MARCH 31		MONTH ENDED DECEMBER 31	
	1992	1991	1991	1990
Net sales	$31,887,399	$26,577,431	$ 3,668,853	$ 3,182,830
Cost of sales	21,655,316	18,690,273	2,459,499	2,174,049
Gross Profit on Sales	10,232,083	7,887,158	1,209,354	1,008,781
Selling, general and administrative expenses	9,852,878	8,693,716	3,466,812	2,870,035
Income (Loss) from Operations	379,205	(806,558)	(2,257,458)	(1,861,254)
Other deductions (income):				
Interest expense	689,089	921,781	249,836	308,457
Other - net	(431,908)	(306,007)	(179,828)	(130,794)
	257,181	615,774	70,008	177,663
Income (Loss) Before Income Taxes	122,024	(1,422,332)	(2,327,466)	(2,038,917)
Income Taxes (Benefit)	46,000	(541,000)	(750,000)	(775,000)
NET INCOME (LOSS)	$ 76,024	$ (881,332)	$ (1,577,466)	$ (1,263,917)
EARNINGS (LOSS) PER SHARE	$ .02	$ (.22)	$ (.38)	$ (.31)
Weighted average number of common and common cquivalent shares outstanding	4,268,521	4,095,808	4,109,108	4,097,758

LESCO, INC.
STATEMENTS OF CASH FLOW

	THREE MONTHS ENDED MARCH 31		MONTH ENDED DECEMBER 31	
	1992	1991	1991	1990
OPERATING ACTIVITIES:				
Net Income (Loss)	$ 76,024	$ (881,332)	$(1,577,466)	$(1,263,917)
Adjustments to reconcile net income (loss) to net cash provided by (used by) operating activities:				
Depreciation and amortization	678,527	561,802	213,999	186,837
Deferred income taxes			(750,000)	
(Increase) decrease in accounts receivable	(11,611,050)	(9,494,090)	4,482,162	3,148,915
Provision for uncollectible accounts receivable	334,735	137,493	108,086	48,381
Increase in inventories	(3,118,676)	(611,159)	(4,226,972)	(4,217,614)
Increase in accounts payable	14,749,428	5,846,188	2,285,835	2,996,487
Increase in other current items	(432,300)	(1,062,495)	(675,488)	(1,234,321)
Other	(12,533)	(11,019)	(3,607)	(2,984)
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	664,155	(5,514,612)	(143,451)	(338,216)
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(1,247,659)	(718,858)	(242,278)	(176,321)
Proceeds from note receivable	100,000	43,750		
NET CASH USED IN INVESTING ACTIVITIES	(1,147,659)	(675,108)	(242,278)	(176,321)
FINANCING ACTIVITIES:				
Proceeds from borrowings	4,174,000	17,562,000	3,479,000	3,471,000
Reduction of borrowings	(3,598,042)	(11,326,191)	(3,220,312)	(3,531,827)
Issuance of common shares	450,896			
Purchase of common shares		(3,116)		(18,360)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,026,854	6,232,693	258,688	(79,187)
Net Increase (Decrease) in Cash	543,350	42,973	(127,041)	(593,724)
Cash - Beginning of the Period	426,436	671,912	553,477	1,265,636
CASH - END OF THE PERIOD	$ 969,786	$ 714,885	$ 426,436	$ 671,912

NOTES TO FINANCIAL STATEMENTS

NOTE A - Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the requirements of Regulation S-X and Form 10-Q. The statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the results for interim periods. For further information, refer to the audited financial statements and footnotes thereto for the year ended November 30, 1991.

NOTE B - Change in Fiscal Year

The Company changed its fiscal year from November 30 to a calendar year ending December 31. This year end change created a one month transitional reporting period ending December 31, 1991. The reporting of the December 1991 transition period is included in this Form 10-Q. The Company has recast its first quarter 1991 financial statements to include the three month period ended March 31, 1991 in order to present results of operations on a more comparable basis.

LESCO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

First Quarter Ended March 31, 1992 compared to First Quarter Ended March 31, 1991

The Company changed from a November 30 fiscal year to a December 31 calendar year effective December 31, 1991. To reflect comparative months for the prior year, the Company recast its 1991 quarterly financial statements.

Sales increased $5,310,000, a 20% increase for the first quarter ended March 31, 1992 over the comparable three months ended March 31, 1991. All product categories contributed to the sales increase with the largest increases being $2,429,000 in turf protection products and $1,207,000 in fertilizers. Service Center sales continued its growth with average store sales for comparable stores in the first quarter 1992 being $206,000 as compared to $176,000 in the first quarter of 1991, an increase of 17%.

Gross profit as a percentage of sales for the first quarter 1992 was 32.1% compared to 29.7% for the first quarter of 1991. This increase in gross profit as a percentage of sales was due principally to combination fertilizer/protection products which recovered from the unusually low marketplace pricing experienced in the first quarter of 1991. The gross profit percentage for equipment also improved while other sales product categories remained relatively unchanged.

For the quarter ended March 31, 1992, selling, general and administrative expenses increased by $1,159,000 over the same period last year. These expenses decreased as a percent of sales to 30.9% for the first quarter of 1992 compared to 32.7% in the first quarter of 1991. This reflects the fixed nature of many of the costs relating to the Company's selling, warehousing and administrative expenses. Delivery costs did increase during the period by $518,000 which reflects the consolidation of northern production facilities into the Martins Ferry, Ohio facility creating longer delivery distances particularly to the New England market. In addition, certain products for our southern marketplace are manufactured at Martins Ferry to supplement seasonal production demands of our Sebring, Florida facility resulting in increased delivery costs. The increases in delivery costs are offset by production efficiencies and lower raw material costs in Martins Ferry. Service Center costs increased $392,000 which represents the increase in the number of Service Centers in operation. The Company's general expenses increased $390,000 for the first quarter of 1992 compared to 1991. These costs reflect increases in state product registration costs and an increase in the allowance for uncollectible customer receivables.

Interest expense decreased from $922,000 in the first quarter 1991 to $689,000 for the first quarter of 1992. This reduction relates to the decrease in the Company's borrowing rates as market rates decreased.

Comparison of the Month of December 1991 to December 1990

Sales for the month of December 1991 were $3,669,000 compared to $3,183,000 in December 1990. The month of December represents the lowest volume sales month for the Company due to the winter season in the northern marketplace and the overall effect of the holidays. The Company's gross profit as a percentage of sales increased in December 1991 to 33% compared to 31.7% in December 1990. Selling, general and administrative costs also increased for the month of December 1991 compared to December 1990 due principally to the Company's sales meeting held in December 1991, an increase in the number of Service Centers operating in 1991 compared to 1990, and increases in state product registration costs. The Company's net loss for the month of December 1991 was $1,577,000 compared to $1,264,000 for December 1990.

Financial Condition

The Company's total assets increased to over $100,000,000 as of March 31, 1992 due principally to an increase of $5,201,000 in accounts receivable and a $4,625,000 increase in inventories from March 31, 1991 to March 31, 1992. These increases were funded principally by increases in accounts payable of $7,641,000 and shareholders' equity of $3,511,000.

During the first quarter of 1992, the Company renewed its revolving credit agreement with its principal banks increasing its total available long-term credit facility from $32,000,000 to $45,000,000. The agreement matures in May 1994 with no significant changes in the terms and conditions from the previous agreement. The new agreement replaces the previous amounts outstanding under the expiring agreement and the $6,000,000 short-term note. Also during the quarter, the Company finalized the $1,000,000 State of Ohio Department of Development Loan related to the Martins Ferry project. The $1,000,000 loan was received in the first quarter of 1992 and is payable in monthly installments over a ten year period bearing interest at five percent annually.

The Company's expenditures for capital improvements totaled $1,248,000 for the first quarter of 1992 and relate principally to the completion of the Martins Ferry facility. The Company's capital improvement plans for the remainder of 1992 will focus on enhancing certain operations at the Martins Ferry facility and expanding the Company's Service Center operations. These expenditures will be funded by operations or borrowings.

The Company generally does not enter into long-term contracts and as a result, is generally in a position to offset increases for raw materials through price adjustments.

PART II - OTHER INFORMATION

The items in Part II are inapplicable or, if applicable, would be answered in the negative. These items have been omitted and no other reference is made thereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LESCO, INC.

May 12, 1992

By:____________________________
Daniel G. Dunstan
Chief Operating Officer
Executive Vice President/Secretary
Principal Financial Officer

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92-2270

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

_X_ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 1992

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ TO ______

Commission File No. 0-4678

Pancho's Mexican Buffet, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**75-1292166** (I.R.S. Employer Identification No.)
3500 Noble Avenue, Fort Worth, Texas (Address of principal executive offices)	**76111** (Zip Code)

817-831-0081
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES _X_ NO ____

Number of shares of Common Stock outstanding as of July 21, 1992: 4,400,379.

A

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PANCHO'S MEXICAN BUFFET, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements included herein have been prepared by the Company without audit, except for the balance sheet as of September 30, 1991, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. In the opinion of the Company, all adjustments consisting only of normal recurring adjustments necessary to present fairly the financial position of the Company as of June 30, 1992 and the results of operations and cash flows for the indicated periods have been included. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 1992.

Deloitte & Touche, independent public accountants, has made a limited review of the consolidated financial statements as of June 30, 1992 and for the three and nine month periods ended June 30, 1992 and 1991 included herein.

PANCHO'S MEXICAN BUFFET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS	June 30, 1992 (Unaudited)	September 30, 1991
Current Assets:		
Cash and cash equivalents	$ 5,067,311	$ 2,044,944
Accounts and notes receivable - current portion	397,720	277,677
Inventories	2,750,649	2,980,234
Prepaid expenses	357,234	720,918
Deferred income taxes	409,487	749,091
Total current assets	8,982,401	6,772,864
Property, Plant and Equipment:		
Land	3,504,725	3,831,672
Buildings	9,513,528	9,104,446
Leasehold improvements	20,692,688	19,764,745
Equipment and furniture	23,041,882	22,221,417
Construction in progress	162,156	574,210
Total	56,914,979	55,496,490
Less accumulated depreciation and amortization	27,615,827	25,296,102
Property, plant and equipment - net	29,299,152	30,200,388
Other Assets:		
Intangible assets	11,266	22,665
Deferred income taxes	755,268	572,964
Other, including noncurrent portion of receivables	1,310,769	662,313
Total other assets	2,077,303	1,257,942
TOTAL	$40,358,856	$38,231,194

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 1992 (Unaudited)	September 30, 1991
Current Liabilities:		
Accounts payable	$ 1,582,529	$ 1,723,416
Accrued taxes on income	109,680	329,542
Accrued wages and bonuses	1,746,471	1,664,001
Other current liabilities	1,975,692	2,853,964
Total current liabilities	5,414,372	6,570,923
Other Liabilities:		
Accrued insurance costs	3,276,456	2,494,107
Restructuring reserves	559,680	552,861
Other	64,915	62,583
Total other liabilities	3,901,051	3,109,551
Stockholders' Equity:		
Common stock	528,345	511,405
Paid-in surplus	24,270,165	23,320,900
Retained earnings	11,434,610	9,908,102
Total	36,233,120	33,740,407
Less treasury stock	5,189,687	5,189,687
Stockholders' equity	31,043,433	28,550,720
TOTAL	$40,358,856	$38,231,194

See Notes to Consolidated Financial Statements.

PANCHO'S MEXICAN BUFFET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
(Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	1992	1991	1992	1991
Sales--Restaurant and Related	$18,947,692	$19,582,950	$54,125,379	$54,092,167
Costs and Expenses:				
Cost of sales--restaurant and related - food and labor cost	10,558,997	10,840,346	30,441,985	29,484,851
Restaurant and other operating expenses	5,766,685	6,455,542	16,446,427	17,772,856
General and administrative expenses	1,457,357	1,451,123	4,206,770	4,456,874
Total	17,783,039	18,747,011	51,095,182	51,714,581
Operating Income	1,164,653	835,939	3,030,197	2,377,586
Other, Including Interest	12,175	4,439	17,884	16,680
Earnings Before Taxes on Income	1,176,828	840,378	3,048,081	2,394,266
Provision for Taxes on Income:				
Current	162,400	351,100	936,600	1,009,000
Deferred	282,000	(57,000)	152,800	(171,000)
Total	444,400	294,100	1,089,400	838,000
Net Earnings	732,428	546,278	1,958,681	1,556,266
Retained Earnings, Beginning of Period	10,920,881	15,163,183	9,908,102	14,153,195
Total	11,653,309	15,709,461	11,866,783	15,709,461
Less: Cash dividends	218,699		432,173	
Retained Earnings, End of Period	$11,434,610	$15,709,461	$11,434,610	$15,709,461
Net Earnings Per Common and Common Equivalent Share	$ .17	$ .13	$ .45	$ .36

See Notes to Consolidated Financial Statements.

PANCHO'S MEXICAN BUFFET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	1992	1991	1992	1991
Cash Flows From Operating Activities:				
Net earnings	$ 732,428	$ 546,278	$ 1,950,681	$ 1,556,266
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	846,804	955,266	2,505,898	2,821,822
Provision for deferred income taxes	282,000	(57,000)	152,800	(171,000)
Amortization of restaurant start-up costs	5,544	26,900	30,466	89,110
Payment of restaurant start-up costs		(18,954)	(19,067)	(40,938)
(Gain) on sale of assets		(6,300)	(450)	(12,480)
(Increase) in trade receivables	(73,061)	(35,356)	(44,280)	(22,154)
(Increase) decrease in inventory and prepaid expenses - net	174,272	576,330	593,269	(441,979)
Increase (decrease) in accounts payable, accrued wages and bonuses and other liabilities	314,958	297,605	68,460	(205,854)
(Decrease) in income taxes payable - net	(127,600)	(142,170)	(219,862)	(265,100)
Other - net	10,354	17,456	58,628	23,835
Total adjustments	1,433,271	1,613,777	3,125,862	1,775,262
Net cash provided by operating activities	2,165,699	2,160,055	5,084,543	3,331,528
Cash Flows From Investing Activities:				
Property additions and renewals	(350,939)	(646,296)	(2,108,049)	(2,684,103)
(Decrease) in accounts payable for property	(3,762)	(55,546)	(209,149)	(19,759)
(Increase) decrease in equipment inventory	25,704	(61,568)	5,501	88,381
Proceeds from sale of assets	6,108	12,103	473,114	31,281
Net cash used in investing activities	(322,889)	(751,307)	(1,838,583)	(2,584,200)
Cash Flows From Financing Activities:				
Net (payments) under line of credit agreement		(285,000)		
Net proceeds from sale of common stock	144,500		208,580	
Dividends paid	(218,699)		(432,173)	
Net cash (used in) financing activities	(74,199)	(285,000)	(223,593)	
Net Increase In Cash And Cash Equivalents	1,768,611	1,123,748	3,022,367	747,328
Cash And Cash Equivalents, Beginning Of Period	3,298,700	1,093,999	2,044,944	1,470,419
Cash And Cash Equivalents, End Of Period	$ 5,067,311	$ 2,217,747	$ 5,067,311	$ 2,217,747
Supplemental information:				
Income taxes paid	$ 290,000	$ 493,270	$ 1,156,500	$ 1,268,270
Interest paid		13,971		27,152
Common stock issued for notes receivable (Note 3)	757,625		757,625	

See Notes to Consolidated Financial Statements.

PANCHO'S MEXICAN BUFFET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. EARNINGS PER SHARE

Net earnings per common and common equivalent share are based on the weighted average number of shares and equivalent shares (stock options when not anti-dilutive) outstanding during each period. The weighted average number of such shares was 4,420,493 and 4,328,529 for the three- and nine-months ended June 30, 1992 compared to 4,316,494 and 4,288,777 for the same periods last year.

2. BORROWINGS AND BANK CREDIT LINE

The weighted average balances outstanding under the Company's revolving credit loan agreement with a bank were $2,143 and $377,619, respectively, during the three- and nine-month periods ended June 30, 1991, with interest at a weighted average annual rate of 9.6%. There were no borrowings during the nine-month period ended June 30, 1992.

3. STOCKHOLDERS' EQUITY

In April 1992, the Company issued 104,500 shares of common stock to certain officers in exchange for notes receivable in the amount of $757,625. The notes bear interest at 7.83% and are payable in ten equal annual installments plus interest. The shares were sold at the quoted market price on the day of sale.

Deloitte & Touche

Suite 2340
801 Cherry Street
Fort Worth, Texas 76102-6801

Telephone: (817) 347-3300
Facsimile: (817) 336-2013

Pancho's Mexican Buffet, Inc.:

We have made a review of the consolidated balance sheet of Pancho's Mexican Buffet, Inc. and subsidiaries as of June 30, 1992, and the related consolidated statements of earnings and retained earnings and of cash flows for the three-month and nine-month periods ended June 30, 1992 and 1991, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of September 30, 1991, and the related consolidated statements of earnings and retained earnings and of cash flows for the year then ended (not presented herein), and in our report dated November 1, 1991, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of September 30, 1991, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

July 22, 1992

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

The Company's current ratio was 1.7 to 1 at June 30, 1992 compared to 1.0 to 1 at September 30, 1991. Cash and cash equivalents increased $3.0 million during the nine-month period ended June 30, 1992. Cash provided by operations of $5.1 million, offset by net cash used for capital expenditures of $2.1 million, accounted for most of the cash increase. Cash provided by operations increased $1.8 million during the nine-months ended June 30, 1992 compared to the same period last year, due primarily to the payment of accrued and prepaid insurance costs in the prior year. Management believes that the Company's operating cash flows supplemented by short-term bank borrowings are adequate for its foreseeable capital needs.

In March and June 1992, the Company paid 5 cents per share quarterly common stock dividends. Previously, the Company had paid an annual dividend for each of the last twelve years (17 cents per share in fiscal year 1991).

Results of Operations

Restaurant and related revenue decreased $635,258 (3.2%) and increased $33,212 (0.0%) for the three- and nine-months ended June 30, 1992 (current three- and nine-month periods) compared to the same periods last year. One restaurant, in Lubbock, Texas, was opened in December 1991 and another, in College Station, Texas, opened in February 1992. Four restaurants were closed during the current nine-month period as part of the Company's restructuring plan initiated during 1991--one in Baton Rouge, Louisiana in December 1991 and three in the Denver, Colorado area in January 1992. The net effect of these restaurant openings and closings was to increase revenues by $51,000 and $906,000 for the current three- and nine-month periods, respectively. However, these revenue gains were offset by decreased comparable restaurant sales which resulted from a sluggish economy, an increasingly competitive environment and higher prior year sales due to unusually heavy advertising in the spring of 1991 to promote the introduction of the Fiesta Plate. Leases for two additional restaurants--one in San Antonio, Texas and another in Houston, Texas--have been obtained and openings are planned for late September 1992 or early fiscal year 1993.

Average sales for restaurants open throughout the current three- and nine-month periods were $288,262 and $814,539 compared to $288,215 and $806,218 for the same periods last year. Sales generated by restaurants open in fiscal year 1991 and 1992 (comparable restaurant sales) decreased 5.1% and 4.2% over the prior three- and nine-month periods after giving effect to menu price increases in fiscal year 1991.

Cost of sales as a percentage of sales for the current three- and nine-month periods was 55.7% and 56.2% compared to 55.4% and 54.5% for the same periods last year. The food cost component of cost of sales increased 0.3% and 0.8% for the current three- and nine-month periods compared to the same periods last year. Menu refinements were the prime cause for the food cost increases, although the current quarter comparison also benefited from high produce prices in the same period last year. Labor cost as a percentage of sales was equal to the prior year for the current quarter but higher year-to-date, largely due to the April 1, 1991 Federally mandated minimum wage increase.

Restaurant and other operating expenses as a percentage of sales for both the current three- and nine-month periods was 30.4% compared to 33.0% and 32.9% for the same periods last year. Reduced depreciation expense and operating losses in underperforming restaurants resulting from restructuring during fiscal year 1991, and significantly lower advertising and employee injury benefit costs accounted for most of the change. During 1991, advertising expenditures were shifted to spring to promote the introduction of the Fiesta Plate. (The Fiesta Plate includes any four items from the buffet, plus rice, beans, chips and hot sauce and sopaipillas, and is currently priced at $3.29.) Advertising spending in 1992 will follow the Company's traditional pattern of promoting most heavily during the summer months when kids are out of school.

General and administrative expenses as a percentage of sales for the current three- and nine-month periods was 7.7% and 7.8% compared to 7.4% and 8.2% for the same periods last year. The nine-month period decrease was due primarily to cost reduction measures and the positive impact of the restructuring announced during fiscal year 1991. Significant spending in the current three-month period for marketing research and financial public relations reduced expense savings in the current quarter.

The provision for income taxes was computed using an effective tax rate of 35% for the prior three- and nine-month periods. During 1991, the State of Texas revised its corporate franchise tax to include an income based component. Beginning January 1, 1992, the income tax accrual percentage was increased to 39% to reflect the changes in the Texas franchise tax. The actual tax accrual percentage recognized in the current three- and nine-month periods is less than 39% due to certain tax benefits recognized during the periods. The Texas franchise tax revision is expected to result primarily in a reclassification of expense from general and administrative expenses to provision for taxes on income, with only a moderate increase in total franchise tax expense for fiscal year 1992.

PART II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Required by Item 601 of Regulation S-K

Exhibit Number	
2	Not applicable
4	Not applicable
11	Not required--explanation of earnings per share computation is contained in notes to consolidated financial statements.
15	Letter re: unaudited interim financial information
18	Not applicable
19	Not applicable
20	Not applicable
23	Not applicable
24	Not applicable
25	Not applicable
28	Not applicable

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended June 30, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PANCHO'S MEXICAN BUFFET, INC.

July 21, 1992

Hollis Taylor, President and Chief Executive
Officer (Principal Executive Officer)

July 21, 1992

David Oden, Vice President, Treasurer,
Chief Financial Officer and Assistant Secretary
(Principal Financial Officer)

EXHIBIT 15

Deloitte & Touche

Suite 2340
801 Cherry Street
Fort Worth, Texas 76102-6801

Telephone: (817) 347-3300
Facsimile: (817) 336-2013

Pancho's Mexican Buffet, Inc.:

We have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited interim financial information of Pancho's Mexican Buffet, Inc. and subsidiaries for the three-month and nine-month periods ended June 30, 1992 and 1991, as indicated in our report dated July 22, 1992; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which was included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 1992, is incorporated by reference in Registration Statement No. 2-86238 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act, is not considered a part of the Registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Deloitte + Touche

July 22, 1992

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

(Mark One)

X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 1991, or

_ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ________________ to ________________.

Commission file number 0-18644

ROYAL INTERNATIONAL OPTICAL INC.

(Exact Name of Issuer as Specified in its Charter)

Pennsylvania	22-3032948
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2760 Irving Boulevard
Dallas, Texas 75207
(Address of principal executive offices, including zip code)

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Previous Address
Glen Oaks Industrial Park
P.O. Box 124
Glendora, N.J. 08029

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(214) 638-1397
(Registrant's telephone number, including area code)

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Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES _X_ NO ____

As of February 11, 1992, 5,754,020 shares of the registrant's common stock, $.01 par value, were outstanding.

Total of sequentially numbered pages 165

Exhibit index on sequentially numbered page 14

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

ASSETS	December 31, 1991 (Unaudited)	March 31, 1991 (Audited)
Current assets:		
Cash and cash equivalents	$ 3,409	$ 2,011
Accounts receivable	5,821	8,757
Inventory	21,176	19,214
Prepaid expenses and other	561	544
Total current assets	30,967	30,526
Property, plant and equipment:		
Land	1,059	1,059
Buildings	5,781	5,725
Leasehold improvements	10,569	10,376
Machinery and equipment	15,067	14,807
Furniture and fixtures	10,424	9,719
Transportation equipment and other	478	430
	43,378	42,116
Less accumulated depreciation	11,944	8,645
Net property, plant and equipment	31,434	33,471
Goodwill, net	51,097	52,128
Deferred financing costs, net	1,963	2,262
Deposits and other assets	267	259
	$115,728	$118,646

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(In thousands, except per share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1991 (Unaudited)	March 31, 1991 (Audited)
Current liabilities:		
Accounts payable - trade	$ 12,789	$ 11,182
Accrued expenses and other	5,264	7,163
Current portion - long-term liabilities	1,350	1,429
Subordinated notes payable	-	300
Total current liabilities	19,403	20,074
Long-term liabilities, less current portion	55,330	76,969
Deferred taxes and other	1,306	1,500
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized; 2,717.5 shares issued and outstanding, $10,000 per share issuance price	22,375	-
Common stock, $.01 par value; 20,000,000 shares authorized; 5,754,020 shares issued and outstanding	58	58
Additional paid-in capital	31,496	26,696
Accumulated deficit	(14,240)	(6,651)
Total stockholders' equity	39,689	20,103
	$115,728	$118,646

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	Nine months ended December 31, 1991	Nine months ended December 31, 1990
Net sales	$101,309	$107,889
Cost of sales	29,097	31,211
Gross profit	72,212	76,678
Selling, general, and administrative expense:		
Salaries	28,063	29,689
Rent	15,583	16,639
Advertising	5,595	5,943
Other general and administrative	15,874	16,284
Taxes other than income taxes	4,469	4,457
Depreciation and amortization	4,645	3,736
Total selling, general, and administrative expense	74,229	76,748
Operating (loss)	(2,017)	(70)
Other income (expense):		
Interest and other income	648	1,388
Interest expense	(7,240)	(7,011)
	(6,592)	(5,623)
Loss before income taxes (benefit)	(8,609)	(5,693)
Income taxes (benefit)	(1,020)	(370)
Net loss	$ (7,589)	$ (5,323)
Net loss per common share	$ (1.32)	$ (.94)
Weighted average common shares outstanding	5,754,020	5,754,020

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	Three months ended December 31, 1991	Three months ended December 31, 1990
Net sales	$ 28,772	$ 32,117
Cost of sales	8,519	9,981
Gross profit	20,253	22,136
Selling, general, and administrative expense:		
Salaries	8,769	9,874
Rent	4,901	5,354
Advertising	1,457	1,521
Other general and administrative	5,183	4,978
Taxes other than income taxes	1,385	1,450
Depreciation and amortization	1,576	1,278
Total selling, general, and administrative expense	23,271	24,455
Operating (loss)	(3,018)	(2,319)
Other income (expense):		
Interest and other income	164	255
Interest expense	(2,449)	(2,387)
	(2,285)	(2,132)
(Loss) before income taxes (benefit)	(5,303)	(4,451)
Income taxes (benefit)	(500)	(892)
Net (loss)	$ (4,803)	$ (3,559)
Net (loss) per common share	$ (.83)	$ (.62)
Weighted average common shares outstanding	5,754,020	5,754,020

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine months ended December 31, 1991	Nine months ended December 31, 1990
Net (loss)	$ (7,589)	$ (5,323)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,645	3,736
Imputed interested on acquisition debt	-	1,979
Gain on redemption of 10% redeemable preferred stock	-	(65)
Amortization of deferred gains	-	(75)
Decrease in deferred taxes	(194)	(370)
Changes in assets and liabilities:		
Accounts receivable	2,936	2,566
Inventory	(1,962)	(1,143)
Prepaid expenses and other	(17)	(34)
Deposits and other	(8)	(339)
Accounts payable - trade	1,607	3,482
Accrued expenses and other	967	(1,201)
Net cash provided by operating activities	385	3,213
Cash flows from investing activities:		
Payment associated with acquisition of Royal International Optical Corp., net of cash acquired	-	(61,428)
Payment of deferred financing costs	(18)	(3,625)
Additions to property, plant and equipment, net	(1,239)	(1,589)
Net cash used in investing activities	(1,257)	(66,642)
Cash flows from financing activities:		
Cash received from borrowings:		
Subordinated debt	-	15,000
Long-term liabilities	(270)	55,000
Draw on line of credit	4,500	2,300
Repayments of long-term debt	(2,182)	(7,350)
Dividends paid	-	(98)
Redemption of 10% redeemable preferred stock	-	(235)
Other	222	-
Net cash provided by financing activities	2,270	64,617
Net increase in cash	1,398	1,188
Cash, beginning of period	2,011	789
Cash, end of period	$ 3,409	$ 1,977

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended December 31, 1991, and 1990

(Unaudited)

1. Interim consolidated financial statements

In the opinion of management, the accompanying consolidated financial statements for the nine months ended December 31, 1991, and 1990 reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial condition, results of operations, and cash flows of Royal International Optical Inc. and Subsidiaries (the "Company") and include the accounts of the Company and all of its wholly owned subsidiaries. All material intercompany transactions and balances are eliminated.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been omitted. The unaudited consolidated financial statements referred to above should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended March 31, 1991. Certain reclassifications have been made to prior period amounts to conform to 1991 presentation. Results of operations for the periods ended December 31, 1991, and 1990 are not necessarily indicative of the results for the year.

2. Restructure and Recapitalization of the Company

Effective December 31, 1991, the Company and Westinghouse Credit Corporation ("Westinghouse"), it's principal lender, executed "Amendment No. 2 to Loan and Security Agreement" which restructured the existing loan agreements and recapitalized the Company as follows:

(a) Senior Secured Term Loan - was reduced from $55,000,000 to $45,000,000 in exchange for $10,000,000 face value in preferred stock. Interest on this obligation for the quarter ended December 31, 1991, in the amount of $1,650,000, originally due on January 1, 1992, was exchanged for an equal face value amount of preferred stock. The loan's maturity date was extended to December 31, 1999, with equal quarterly installments of principal and interest of $2,517,223 required commencing on September 30, 1993.

(b) Senior Subordinated Term Loan - in the amount of $15,000,000 was prepaid and cancelled in exchange for preferred stock of equal face value amount. Interest on this obligation for the quarter ended December 31, 1991, in the amount of $525,000, originally due on January 1, 1992, was paid with an equal face value amount of preferred stock.

(c) Revolving Line of Credit - availability under the Revolver was increased by $3,000,000 from $8,500,000 to $11,500,000.

(d) Common Stock Warrants - Westinghouse already holds a common stock warrant entitling it to purchase 1,438,505 shares of common stock of the Company, equaling 25% of the outstanding shares on a fully diluted basis, at $1.00 per share. These shares have already been issued and are held in trust on behalf of Westinghouse. In conjunction with this transaction, the exercise price of this warrant was reduced to $0.10 per share.

The Company also issued a new common stock warrant to Westinghouse giving it the right to purchase an additional 1,438,505 newly issued shares, or 15% of the outstanding shares of the Company on a fully diluted basis, at $0.10 per share.

In the event the Company goes private, Westinghouse has the option to put the stock purchase warrants to the Company upon the occurrence of certain events.

Should the Company elect to redeem all or part of the newly issued preferred stock described below before March 31, 1996, in general, all or a portion of the new warrant to buy 15% of the common shares will be canceled, based upon the amount of the preferred stock redeemed.

(e) Preferred Stock - the Company issued cumulative nonconvertible preferred stock with a face value of $27,175,000 in exchange for the above described debt. The preferred stock requires quarterly dividend payments at rates that range from 7.2% to 9.5% through March 31, 1997. In certain circumstances, the preferred stock purchase agreement gives Westinghouse the right to 51% of the voting rights on any matter placed before the Company's shareholders. If the Company, at it's sole option, elects to redeem the preferred stock, the redemption price will be based upon a redemption schedule which would require a payment of between 107.2% and 141.5% of the face value of the preferred stock depending upon the year in which it is redeemed. The Company has the right to redeem the preferred stock with cash or with promissory notes bearing 12% interest and due on December 31, 2002.

The preferred stock and warrants are recorded in these financial statements at their market value which is $22,375,000 for the preferred stock and $4,800,000 for the warrants. No gain or loss was recorded on the transaction.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Current economic conditions are believed by management to have caused substantial declines in comparable store sales industry wide. In response to this, the Company has used more aggressive sale promotions which have not yet sufficiently increased sales. Specific comments are as follows:

Results of Operations

The following table sets forth certain information regarding items in the Company's consolidated statements of operations for the periods indicated.

	Three Months ended December 31,		Nine Months Ended December 31,	
	1991	1990	1991	1990
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	29.6	31.1	28.7	28.9
Gross profit	70.4	68.9	71.3	71.1
Selling, general, and administrative expenses	80.9	76.1	73.3	71.1
Operating (loss)	(10.5)	(7.2)	(2.0)	--
Interest expense, net of interest and other income	(7.9)	(6.7)	(6.5)	(5.2)
(Loss) before income taxes (benefit)	(18.4)	(13.9)	(8.5)	(5.3)
Income taxes (benefit)	-	(2.8)	(0.5)	(0.3)
Net (loss)	(18.4)%	(11.1)%	(8.0)%	(5.0)%

Quarter Ended December 31, 1991, compared to Quarter Ended December 31, 1990

Net sales for the quarter ended December 31, 1991, were $28.8 million compared to $32.1 million for the quarter ended December 31, 1990. The decrease was attributable principally to a decline in comparable store sales and a net decrease in the number of stores open during the period due to the closure of nonperforming locations. This quarter is traditionally the seasonal low point of the year due to the holiday season and consequently is a quarter in which the Company normally has a loss. Sales during the quarter ended December 31, 1991, were further depressed by adverse economic conditions.

Cost of sales decreased as a percentage of net sales from 31.1% during the quarter ended December 31, 1990, to 29.6% for the quarter ended December 31, 1991. The 1.5% decrease was due principally to reduction of manufacturing salaries, to better integration into the retail stores of the product produced by the Company's frame manufacturing subsidiary, and to utilization of sale events with higher margins during a period that the Company expects sales to be seasonally at their lowest point of the year.

Selling, general, and administrative expenses increased as a percentage of net sales from 76.1% during the quarter ended December 31, 1990, to 80.9% during the same period of 1991. The 4.8% increase was principally due to the decrease in sales. Total costs in this category, excluding depreciation and amortization, decreased by approximately $1,482,000 between the third quarter of 1991 and the third quarter of 1990. However, sales declined by approximately $3.3 million during this same period, causing the increase in this cost as a percentage of sales.

In summary, despite the fact that the Company experienced a decline in sales of $3.3 million during the third quarter due to current economic conditions, operating cash flow was only $401,000 lower than the third quarter in 1990 due to efficient completion of the merger and cost controls put in place.

Interest expense, net of interest and other income, increased by approximately $153,000 during the quarter ended December 31, 1991, compared to the same period of 1990 due principally to increased interest expense associated with additional borrowings on the line of credit.

Nine Months Ended December 31, 1991, Compared to Nine Months Ended December 31, 1990

Net sales for the nine months ended December 31, 1991, were $101.3 million compared to $107.9 million for the nine months ended December 31, 1990. The decrease was attributable principally to a decline in comparable store sales and a net decrease in the number of stores open during the period due to the closure of nonperforming locations.

Cost of sales decreased as a percentage of net sales from 28.9% during the first nine months of 1990 to 28.7% during the first nine months of 1991. The 0.2% decrease was attributable principally to reduction of manufacturing salaries, to better integration into the retail stores of the product produced by the Company's frame manufacturing subsidiary, and to utilization of sale events with higher margins during a period that the Company expects sales to be seasonally at their lowest point of the year.

Selling, general, and administrative expenses increased as a percentage of net sales from 71.1% during the nine months ended December 31, 1990, to 73.3% during the same period of 1991. The 2.2% increase was principally due to the decrease in sales. Total costs in this category, excluding depreciation and amortization, decreased by approximately $3.4 million between the nine month period of 1991 and the same period of 1990. However, sales declined by approximately $6.6 million during this same period, causing the increase in this cost as a percentage of sales.

In summary, despite the fact that the Company experienced a decline in sales of $6.6 million during the nine months ended December 31, 1991, due to current economic conditions, operating cash flow was only $1.0 million lower than the same period in 1990 due to efficient completion of the merger and cost controls put in place.

Interest expense, net of interest and other income, increased by approximately $969,000 during the first nine months of 1991 compared to the first nine months of 1990 due to a decrease of interest income as well as increased interest expense associated with additional borrowings on the line of credit.

Liquidity and Capital Resources

The Company had total cash balances of approximately $3.4 million at December 31, 1991. The current ratio was 1.60 to 1 at December 31, 1991, compared to 1.52 to 1 at March 31, 1991. Working capital increased from approximately $10.4 million at March 31, 1991, to $11.6 million at December 31, 1991. The Company has an $11.5 million line of credit of which $3.0 million was available at December 31, 1991.

On February 14, 1992, effective as of December 31, 1991, the Company completed a recapitalization with its senior lender, which involved the conversion of $27,175,000 of debt into preferred stock, increased the availability under working capital lines, and provided an additional warrants to the lender. See footnote 2 to these financial statements for additional information concerning the recapitalization.

The Company believes that it has adequate financial resources to meet its capital requirements for normal operations for the next twelve months.

ROYAL INTERNATIONAL OPTICAL INC.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Statement Affecting Shares.

4.2 Stock Purchase Warrants, dated February 14, 1992, by and among the Borrowers and Westinghouse.

4.3 Specimen Preferred Stock Certificate of the Company.

4.4 Preferred Stock Purchase Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

4.5 Amended and Restated Stock Registration Rights Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

4.6 Preferred Stock Registration Rights Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

10.1 Amendment No. 2 to Loan and Security Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

10.3 Second Amended and Restated Revolving Note, dated December 31, 1991, among the Borrowers and Westinghouse.

10.4 Second Amended and Restated Senior Term Note, dated December 31, 1991, among the Borrowers and Westinghouse.

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf of the undersigned thereunto duly authorized.

ROYAL INTERNATIONAL OPTICAL INC.

By:
George D. McHenry, Jr.
Treasurer (Authorized Officer and Principal Financial Officer)

Dated: February 17, 1992.

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WASHINGTON, D.C. 20549
FORM 10-Q

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(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 1992

OR

____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File Number: 34-16533

SOVEREIGN BANCORP, INC.
(Exact name of Registrant as specified in its charter)

Pennsylvania	23-2453088
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1130 Berkshire Boulevard, Wyomissing, Pennsylvania	19610
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (215) 320-8400

N/A
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X. No ____.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 11, 1992
Common Stock (no par value)	10,813,627 shares

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St. Petersburg, FL

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

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Consolidated Statements of Cash Flows for the six-month periods ended June 30, 1992 and 1991 5 - 6

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SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 1992	December 31, 1991
	(in thousands, except per share data)	
ASSETS		
Cash and amounts due from depository institutions	$20,708	$23,730
Interest-earning deposits	21,597	24,017
Loans and mortgage-backed securities held for resale (approximate market value of $11,487 and $32,252 at June 30, 1992 and December 31, 1991, respectively)	11,321	32,049
Investment securities (approximate market value of $58,404 and $47,893 at June 30, 1992 and December 31, 1991, respectively) (note 3)	58,138	47,410
Mortgage-backed securities (approximate market value of $472,326 and $483,673 at June 30, 1992 and December 31, 1991, respectively) (note 4)	465,106	477,085
Loans (note 5)	1,244,375	1,030,400
Allowance for possible loan losses	(11,924)	(9,532)
Premises and equipment	13,497	11,614
Real estate owned	4,362	3,909
Accrued interest receivable	12,395	11,290
Goodwill and other intangible assets	6,569	7,067
Other assets	6,525	2,740
TOTAL ASSETS	$1,852,669	$1,661,779
LIABILITIES		
Deposits (note 6)	$1,230,713	$1,261,239
Borrowings (note 7)		
Short-term	441,596	271,000
Long-term	47,649	8,259
Advance payments by borrowers for taxes and insurance	11,057	6,172
Official checks	5,508	8,311
Other liabilities	20,014	16,688
TOTAL LIABILITIES	1,756,537	1,571,669
STOCKHOLDERS' EQUITY		
Preferred stock; 7,500,000 shares authorized; none outstanding	-	-
Common stock; no par value; 29,296,875 shares authorized; 10,840,847 shares issued at June 30, 1992 and 10,841,242 shares issued at December 31, 1991	79,027	58,470
Retained earnings, substantially restricted	17,269	31,890
Treasury stock at cost; 30,806 shares at June 30, 1992 and 51,757 shares at December 31, 1991	(164)	(250)
TOTAL STOCKHOLDERS' EQUITY	96,132	90,110
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,852,669	$1,661,779

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	1992	1991	1992	1991
	(in thousands, except per share data)			
Interest income:				
Interest and dividends on investment securities and other interest-earning assets	$1,569	$1,862	$3,019	$3,720
Interest on mortgage-backed securities	9,725	6,282	19,624	12,445
Interest and fees on loans	24,588	22,690	47,902	46,543
Total interest income	35,882	30,834	70,545	62,708
Interest expense:				
Interest on deposits	15,798	16,854	32,409	33,220
Interest on borrowings	5,472	4,863	10,129	11,510
Total interest expense	21,270	21,717	42,538	44,730
Net interest income	14,612	9,117	28,007	17,978
Provision for possible loan losses	2,500	1,830	4,460	3,762
Net interest income after provision for possible loan losses	12,112	7,287	23,547	14,216
Other income:				
Other loan fees and service charges	463	381	923	708
Deposit fees	396	231	801	498
Gain on sale of loans. mortgage-backed securities and investment securities	97	2	275	134
Gain on sale of loans and mortgage-backed securities held for resale	540	87	1,096	272
Miscellaneous income	145	138	434	337
Total other income	1,641	839	3,529	1.949
General administrative expenses:				
Salaries and employee benefits	3,156	2,091	6,130	4,116
Occupancy and equipment expenses	1,249	852	2,520	1,728
Outside services	714	354	1,448	725
Deposit insurance premiums	781	528	1,502	1,055
Advertising	351	197	637	391
Other administrative expenses	663	469	1,689	1,101
Total general administrative expenses	6,886	4,491	13,926	9,116
Other operating expenses:				
Amortization of goodwill and other intangibles	249	83	498	166
Real estate owned (gains) losses, net	64	(5)	186	(21)
Total other operating expenses	313	78	684	145
Income before income taxes	6,554	3,557	12,466	6,904
Income tax provision	3,194	1,819	5,900	3,574
Net income	$3,360	$1,738	$6,566	$3,330
Earnings per share:				
Primary	$.27	$.20	$.54	$.39
Fully diluted	$.27	$.20	$.54	$.38

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six-Month Period Ended June 30,	
	1992	1991
	(in thousands)	
Cash Flows from Operating Activities:		
Net Income	$6,566	$3,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible loan losses and deferred taxes	4,188	3,917
Depreciation	597	489
Amortization	(1,545)	(1,250)
Gain on sale of loans, investment and mortgage-backed securities and real estate owned	(89)	(427)
Net change in:		
Loans and mortgage-backed securities held for resale	20,633	(2,893)
Official checks and other liabilities	(341)	1,504
Accrued interest receivable and other assets	(4,619)	(152)
Net cash provided by operating activities	25,390	4,518
Cash Flows from Investing Activities:		
Proceeds from sales of investment and mortgage-backed securities	98,934	12,015
Proceeds from repayments and maturities of investment and mortgage-backed securities	72,571	24,147
Purchases of investment and mortgage-backed securities	(170,211)	(65,618)
Purchase of loans	(810)	(797)
Net change in loans other than purchases and sales	(214,260)	21,420
Purchases of premises and equipment	(2,504)	(216)
Proceeds from sale of real estate owned	1,385	704
Net cash used by investing activities	(214,895)	(8,345)

(Continued)

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, (Continued)
(Unaudited)

	Six-Month Period Ended June 30, 1992	1991
	(in thousands)	
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	(30,263)	41,247
Net increase (decrease) in short-term borrowings	170,596	(15,078)
Proceeds from long-term borrowings	40,165	-
Repayments of long-term borrowings	(775)	(774)
Net increase in advance payments by borrowers for taxes and insurance	4,885	2,067
Proceeds from issuance of common stock	177	24
Cash dividends paid	(808)	(234)
Sale (purchase) of treasury stock	86	(91)
Net cash provided by financing activities	184,063	27,161
Net change in cash and cash equivalents	(5,442)	23,334
Cash and cash equivalents at beginning of period	47,747	52,545
Cash and cash equivalents at end of period	$42,305	$75,879
Reconciliation of Cash and Cash Equivalents to Consolidated Balance Sheets:		
Cash and amounts due from depository institutions	$20,708	$13,794
Interest-earning deposits	21,597	62,085
	$42,305	$75,879

Supplemental Disclosures:

Income tax payments totaled $6.2 million for the six-month period ended June 30, 1992 and $4.2 million for the same period in 1991. Interest payments totaled $39.2 million for the six-month period ended June 30, 1992 and $43.9 million for the same period in 1991. Noncash activity consisted of mortgage loan securitization of $109.0 million for the six-month period ended June 30, 1992 and $55.8 million for the same period in 1991; reclassification of mortgage loans to real estate owned of $1.8 million for the six-month period ended June 30, 1992 and $2.4 million for the same period in 1991; and stock dividends of $20.4 million for the six-month period ended June 30, 1992.

See accompanying notes to consolidated financial statements.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) GENERAL

The accompanying financial statements of Sovereign Bancorp, Inc. and Subsidiaries ("Sovereign") include the accounts of the parent company, Sovereign Bancorp, Inc. and its subsidiaries, Sovereign Bank, F.S.B. ("Sovereign Bank") and Sovereign Investment Company. Sovereign Bank also owns New Home Financial Services, Inc., First Lancaster Financial Corp., YSL Service Corporation and PSB Investment Company. All material intercompany balances and transactions have been eliminated in consolidation. These financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include certain information or footnotes necessary for the presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, in the opinion of management, the consolidated financial statements reflect all adjustments (which consist of normal recurring accruals) necessary for a fair presentation of the results for the unaudited periods. The results of operations for the three-month and six-month periods ended June 30, 1992 are not necessarily indicative of the results which may be expected for the entire year. The consolidated financial statements should be read in conjunction with the annual report on form 10-K for the year ended December 31, 1991.

(2) EARNINGS PER SHARE

Primary and fully diluted earnings per share have been computed based on the weighted average number of common and common equivalent shares (dilutive stock options) outstanding during the periods. Fully diluted shares for the three-month periods ended June 30, 1992 and 1991 were 12.3 million and 8.8 million, respectively. Fully diluted shares for the six-month periods ended June 30, 1992 and 1991 were 12.3 million and 8.8 million, respectively. Earnings per share for have been adjusted to reflect all stock dividends and stock splits including the 10% stock dividend declared on July 21, 1992.

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

(3) INVESTMENT SECURITIES

The following table presents the composition and market value of investment securities at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Carrying Value	Market Value	Carrying Value	Market Value
U.S. Treasury and U.S. government agency securities	$28,401	$28,431	$ 8,410	$ 8,486
Corporate securities	10,123	10,347	20,447	20,733
Other securities	19,614	19,626	18,553	18,674
Total investment securities	$58,138	$58,404	$47,410	$47,893

(4) MORTGAGE-BACKED SECURITIES

The following table presents the composition and market value of mortgage-backed securities by issuer and by fixed and adjustable rates at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Carrying Value	Market Value	Carrying Value	Market Value
FHLMC	$125,175	$129,678	$138,795	$144,233
FNMA	138,140	140,277	78,617	79,601
Other	201,791	202,371	259,673	259,839
Total	$465,106	$472,326	$477,085	$483,673
Fixed	$264,482	$270,439	$143,230	$148,518
Adjustable	200,624	201,887	333,855	335,155
Total	$465,106	$472,326	$477,085	$483,673

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

(5) COMPOSITION OF LOAN PORTFOLIO

The following table presents the composition of the loan portfolio by type of loan and by fixed and adjustable rates at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Amount	Percent	Amount	Percent
Residential real estate loans	$1,011,223	81.26%	$ 789,030	76.58%
Real estate construction loans:				
Residential (net of loans in process of $14,382 and $10,194, respectively)	15,419	1.24	14,725	1.43
Residential development (net of loans in process of $1,457 and $1,802, respectively)	1,999	.16	2,522	.24
Home equity lines of credit	176,719	14.20	178,825	17.35
Total residential loans	1,205,360	96.86	985,102	95.60
Commercial real estate loans	24,721	1.99	27,122	2.63
Commercial loans	5,247	.42	7,878	.77
Consumer loans	9,047	.73	10,298	1.00
Total loans	$1,244,375	100.00%	$1,030,400	100.00%
Total Loans with:				
Fixed rates	$ 169,177	13.60%	$ 171,228	16.62%
Adjustable rates	1,075,198	86.40	859,172	83.38
Total Loans	$1,244,375	100.00%	$1,030,400	100.00%

SOVEREIGN BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Continued)

(6) DEPOSIT PORTFOLIO COMPOSITION

The following table presents the composition of deposits at the dates indicated: (dollars in thousands)

	June 30, 1992			December 31, 1991		
Account Type	Amount	Percent	Weighted Average Rate	Amount	Percent	Weighted Average Rate
Retail certificates	$ 705,916	57.36%	5.96%	$ 744,260	59.01%	6.71%
Jumbo certificates	98,676	8.02	5.11	104,406	8.28	6.51
Regular savings	201,847	16.40	3.42	186,063	14.75	4.13
Demand deposit accounts	13,056	1.06	-	14,211	1.13	-
NOW accounts	81,399	6.61	2.92	73,205	5.80	3.46
MMDA accounts	129,819	10.55	3.60	139,094	11.03	4.17
Total Deposits	$1,230,713	100.00%	4.96%	$1,261,239	100.00%	5.77%

(7) BORROWINGS

The following table presents information regarding borrowings at the dates indicated: (dollars in thousands)

	June 30, 1992		December 31, 1991	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Securities sold under repurchase agreements	$132,048	3.52%	$ -	- %
FHLB advances	349,713	4.59	271,000	5.36
Other borrowings	7,484	10.99	8,259	11.02
Total borrowings	$489,245	4.40%	$279,259	5.53%

(8) SUBSEQUENT EVENT

On July 21, 1992, Sovereign declared a 10% stock dividend. The ex-dividend date was July 29, 1992 and the additional shares will be distributed on August 14, 1992 to stockholders of record on August 4, 1992. All per share amounts have been adjusted to reflect this dividend.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

General

Net income for the three-month period ended June 30, 1992 was $3.4 million, an increase of 93% over net income of $1.7 million for the three-month period ended June 30, 1991. Fully diluted earnings per share for the three-month period ended June 30, 1992 increased 35% to $.27 compared to $.20 for the same period in 1991. Net income for the six-month period ended June 30, 1992 was $6.6 million or $.54 per fully diluted share compared to $3.3 million or $.38 per fully diluted share for the same period in 1991. Earnings per share have been adjusted to reflect all stock dividends and stock splits including the 10% stock dividend declared on July 21, 1992.

Return on average equity and return on average assets were 13.97% and .72%, respectively, for the six-month period ended June 30, 1992 compared to 10.25% and .49%, respectively, for the same period in 1991. The improvement in earnings is attributable to higher net interest income and other income partially offset by increased general and administrative expenses.

Net Interest Income

Net interest income for the three-month and six-month periods ended June 30, 1992 was $14.6 million and $28.0 million, compared to $9.1 million and $18.0 million for the same periods in 1991. The increase is attributable to an increase in average balances, reductions in core deposit rates, and an overall decline in interest rates. Sovereign's interest rate spread (the difference between the yield on total assets and the cost of total liabilities and stockholders' equity) increased to 3.11% for the six-month period ended June 30, 1992 from 2.73% for the same period in 1991. This increase in spread was caused by the downward repricing of liabilities occurring faster than the downward repricing of assets. Liabilities repriced downward as certificates of deposits matured and were then renewed at lower rates. Core deposit rates on passbooks, checking, and money market accounts were also reduced as a result of the overall decline in interest rates. The net interest margin also increased due to discounted adjustable rate loans adjusting to fully indexed rates.

Interest and fees on loans were $24.6 and $47.9 million for the three-month and six-month periods ended June 30, 1992 compared to $22.7 million and $46.5 million for the same periods in 1991. The average balance of loans was $1.13 billion with an average yield of 8.47% for the six-month period ended June 30, 1992 compared to an average balance of $899.0 million with an average yield of 10.40% for the same period in 1991. The increase in average balance is due primarily to the origination and purchase of adjustable rate mortgage

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

loans. The decline in the yield of the portfolio is due to the decrease in short-term rates, particularly the one year Treasury rate, plus the funding of new adjustable rate loans at discounted rates offset by the repricing of previously discounted adjustable rate loans to a fully indexed yield.

For the six-month period ended June 30, 1992, Sovereign originated approximately $416.7 million of first mortgage loans, an increase of 273% over the $111.6 million of first mortgage loans originated during the same period in 1991. Adjustable rate mortgage loan originations were $283.8 million for the six-month period ended June 30, 1992 compared to $48.5 million for the same period in 1991. The increase in originations was primarily due to the increased level of refinancing activity caused by the decline in mortgage rates and Sovereign's continuing emphasis on adjustable rate originations.

Interest on mortgage-backed securities was $9.7 million and $19.6 million for the three-month and six-month periods ended June 30, 1992 compared to $6.3 million and $12.4 million for the same periods in 1991. The average balance of mortgage-backed securities was $532.2 million with an average yield of 7.37% for the six-month period ended June 30, 1992 compared to an average balance of $288.6 million with an average yield of 8.63% for the same period in 1991. The increase in average balance was primarily due to the purchase of adjustable rate mortgage-backed securities.

Interest and dividends on investment securities and other interest-earning deposits was $1.6 million and $3.0 million for the three-month and six-month periods ended June 30, 1992 compared to $1.9 million and $3.7 million for the same periods in 1991. The average balance of investment securities and other interest-earning deposits was $82.0 million with an average yield of 7.40% for the six-month period ended June 30, 1992 compared to an average balance of $92.8 million with an average yield of 8.06% for the same period in 1991.

Interest on deposits was $15.8 million and $32.4 million for the three-month and six-month periods ended June 30, 1992 compared to $16.9 million and $33.2 million for the same periods in 1991. The average balance of deposits was $1.23 billion with an average cost of 5.30% for the six-month period ended June 30, 1992 compared to an average balance of $942.6 million with an average cost of 7.11% for the same period in 1991. The increase in average balance is primarily due to the assumption of approximately $323.3 million of deposits from the RTC in August and September of 1991.

Interest on borrowings was $5.5 million and $10.1 million for the three-month and six-month periods ended June 30, 1992 compared to $4.9 million and $11.5 million for the same periods in 1991. The average balance of borrowings was $447.6 million with an average cost of 4.53% for the six-month period ended June 30, 1992 compared to an average balance of $285.1 million with an average cost of 8.11% for the same period in 1991. Borrowings have increased as they have been used to fund growth in loans and mortgage-backed securities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Provision for Possible Loan Losses

The provision for possible loan losses was $2.5 million and $4.5 million for the three-month and six-month periods ended June 30, 1992 compared to $1.8 million and $3.8 million for the same periods in 1991. While Sovereign's loan quality remains well above industry averages, management continues to conservatively provide for possible loan losses given the uncertainty regarding a possible economic recovery.

The following table presents the activity in the allowance for possible loan losses for the periods indicated: (dollars in thousands)

	Six-Month Period Ended June 30,	
	1992	1991
Allowance, beginning of period	$ 9,532	$5,658
Charge-offs:		
Residential	378	444
Consumer	180	42
Commercial	1,500	-
Commercial Real Estate	60	-
Total charge-offs	2,118	486
Recoveries:		
Residential	41	-
Consumer	2	4
Commercial	3	9
Commercial Real Estate	4	-
Total Recoveries	50	13
Charge-offs, net of recoveries	(2,068)	(473)
Provision	4,460	3,765
Balance, end of period	$11,924	$8,950

The $1.5 million charge-off during the second quarter of 1992 represents the entire balance of one commercial loan which became uncollectible in the second quarter of 1992 and which had previously been identified as a potential problem loan and for which a specific reserve of $1.5 million had been established earlier during the second quarter of 1992.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Other Income

Other income was $1.6 million and $3.5 million for the three-month and six-month periods ended June 30, 1992 compared to $839,000 and $1.9 million for the same periods in 1991. This increase is the result of higher loan fees and service charges, deposit fees and gains from loans held for resale.

Loan fees and service charges were $923,000 for the six-month period ended June 30, 1992 compared to $708,000 for the same period in 1991. This increase was primarily the result of an increase in Sovereign's servicing portfolio. Sovereign serviced $1.15 billion of its own loans and $440.0 million of loans for others at June 30, 1992 compared to $740.2 million of its own loans and $390.6 million of loans for others at June 30, 1991.

Deposit fees were $801,000 for the six-month period ended June 30, 1992 compared to $498,000 for the same period in 1991. This increase was primarily the result of the assumption of $323.3 million of deposits from the RTC in August and September of 1991. These deposits have increased Sovereign's passbook, NOW and MMDA deposits, which typically generate greater fee income.

The gain on sale of loans and mortgage-backed securities held for resale was $1.1 million for the six-month period ended June 30, 1992 compared to a gain of $272,000 for the same period in 1991. This increase was the result of higher fixed rate originations primarily caused by increased refinancing activity. During the six-month period ended June 30, 1992, Sovereign sold $124.1 million of fixed rate originations compared to $44.6 million during the same period in 1991. Also included in the gains on sale of loans in 1992 is approximately $328,000 from the sale of approximately $25 million of loans acquired from the RTC. Sovereign acquired these loans in connection with the assumption of deposits in New Jersey from the RTC.

General and Administrative Expenses

Total general and administrative expenses were $6.9 million and $13.9 million for the three-month and six-month periods ended June 30, 1992 compared to $4.5 million and $9.1 million for the same periods in 1991. The higher expenses were primarily related to increased salaries and employee benefits, occupancy and equipment, and outside service expenses, all of which were related to the assumption of RTC deposits which included seven community banking offices. General and administrative expenses for the six-month period ended June 30, 1992 included approximately $800,000 of expenses related to the increase in refinancing activity and data processing system conversions, most of which should be non-recurring. The ratio of general and administrative expenses to average assets for the six-month period ended June 30, 1992 was 1.55% compared to 1.39% for the same period in 1991.

Other operating expenses were $313,000 and $684,000 for the three-month and six-month periods ended June 30, 1992 compared to $78,000 and $145,000 for the same periods in 1991. This increase was the result of the amortization of core deposit intangibles associated with the assumption of RTC deposits and due to increased real estate owned expenses which are the result of the recessionary economy.

Income Tax Provision

The income tax provision was $3.2 million and $5.9 million for the three-month and six-month periods ended June 30, 1992 compared to $1.8 million and $3.6 million for the same periods in 1991. The effective tax rate for the six-month period ended June 30, 1992 was 47.3% compared to 51.8% for the same period in 1991. The high effective tax rates were the result of large provisions for possible loan losses which were not fully tax deductible.

FINANCIAL CONDITION

Loan Portfolio

Loans at June 30, 1992 were $1.24 billion compared to $1.03 billion at December 31, 1991. This growth is the result of increased loan originations somewhat offset by higher prepayments. During the six-month period ended June 30, 1992, Sovereign closed approximately $416.7 million in mortgage loans including approximately $283.8 million of adjustable rate mortgage loans which were retained in Sovereign's loan portfolio.

Sovereign's primary loan products are adjustable rate mortgage loans on owner occupied residential real estate. As a result of Sovereign's focus on these products, 96.9% of Sovereign's total loan portfolio is secured by residential real estate and $1.08 billion or 86.4% of the total loan portfolio is comprised of adjustable rate loans. At June 30, 1992, Sovereign's total loan portfolio included $1.01 billion of first mortgage loans secured primarily by liens on owner occupied one-to-four family residential properties and $176.7 million of home equity lines of credit secured primarily by second mortgages on owner occupied one-to-four family residential properties. The remaining loan types in Sovereign's portfolio are gradually declining since new loans of these types are no longer emphasized. At June 30, 1992, Sovereign had no commercial construction loans and only $2.0 million in residential development loans. Sovereign discontinued new commercial and commercial real estate lending in 1989, and also sold $16.8 million of commercial real estate loans during the same year. For additional information on the composition of the loan portfolio at June 30, 1992 and December 31, 1991, see Note 5 in the Notes to Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table presents Sovereign's loan delinquencies at the dates indicated: (dollars in thousands)

	June 30, 1992	December 31, 1991
Residential		
Delinquent loans:		
31-59 days	$ 6,596	$ 9,269
60-89 days	1,748	1,070
90 days and over	5,307	5,814
Total	$13,651	$16,153
Residential delinquencies as a percentage of residential loans	1.31%	1.96%
Home equity lines of credit ("HELOC")		
Delinquent loans:		
31-59 days	$ 832	$ 1,202
60-89 days	78	216
90 days and over	918	988
Total	$ 1,828	$ 2,406
HELOC's delinquencies as a percentage of HELOC's	1.04%	1.35%
Other loans		
Delinquent loans:		
31-59 days	$ 285	$ 722
60-89 days	116	37
90 days and over	761	754
Total	$ 1,162	$ 1,513
Other loan delinquencies as a percentage of other loans	2.83%	3.16%
Total loans		
Delinquent loans:		
31-59 days	$ 7,713	$11,193
60-89 days	1,942	1,323
90 days and over	6,986	7,556
Total	$16,641	$20,072
Total loan delinquencies as a percentage of total loans	1.32%	1.91%

Sovereign places all loans 90 days or more delinquent (except guaranteed student loans) on non-performing status. At June 30, 1992, Sovereign's non-performing assets were $11.1 million compared to $11.3 million at December 31, 1991. The ratio of non-performing assets to total assets was .60% at June 30, 1992 compared to .68% at December 31, 1991.

At June 30, 1992, 80.3% of non-performing assets consisted of loans or real estate owned (REO) related to one-to-four family residential real estate compared to 83.4% at December 31, 1991. Historically, losses on disposition of non-performing residential real estate have been much lower than non-performing commercial and commercial real estate loans. Non-performing assets at June 30, 1992 include $4.4 million of REO which is carried at lower of cost or estimated fair market value.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table presents the composition of non-performing assets at the dates indicated: (dollars in thousands)

	June 30, 1992	December 31, 1991
Non-Accrual Loans:		
Past due 90 or more days as to interest or principal:		
1-4 Family Residential	$ 6,154	$ 6,702
Other	509	624
Past due less than 90 days as to interest or principal:		
1-4 Family Residential	-	-
Other	-	81
Total Non-Accrual Loans	6,663	7,407
Restructured Loans	30	30
Total Non-Performing Loans	6,693	7,437
Real Estate Owned:		
1-4 Family Residential	2,722	2,761
Other	1,640	1,148
Total Real Estate Owned	4,362	3,909
TOTAL NON-PERFORMING ASSETS	11,055	11,346
Past due 90 days or more as to interest or principal and accruing interest	52	130
Non-performing Assets and Loans past due 90 days or more and still accruing	$11,107	$11,476
Non-Performing Assets as a percentage of Total Assets	.60%	.68%
Non-Performing Loans as a percentage of Total Loans	.54%	.72%
Allowance for Possible Loan Losses as a percentage of Total Non-Performing Assets	105.42%	81.81%
Allowance for Possible Loan Losses as a percentage of Total Non-Performing Loans	174.12%	124.81%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Management constantly evaluates the adequacy of its allowance for possible loan losses. Management's evaluation of the adequacy of the allowance to absorb potential future loan losses takes into consideration the risks inherent in the loan portfolio, past loan loss experience, specific loans which could have loss potential, geographic and industry concentrations, delinquency trends, economic conditions and other relevant factors. At June 30, 1992, the allowance for possible loan losses was $11.9 million or .96% of loans compared to $9.5 million or .93% of loans at December 31, 1991.

The following table presents the allocation of the allowance for possible loan losses and the percentage of such allocation to each loan type for the dates indicated: (dollars in thousands)

Balance at end of Period Attributable to	June 30, 1992 Amount	June 30, 1992 Percent	December 31, 1991 Amount	December 31, 1991 Percent
Residential real estate	$ 2,670	22.39%	$2,280	23.92%
Commercial real estate	733	6.15	777	8.15
Commercial	264	2.21	225	2.36
Consumer	555	4.66	595	6.24
Unallocated	7,702	64.59	5,655	59.33
Total	$11,924	100.00%	$9,532	100.00%

Potential problem loans (consisting of loans as to which management has serious doubts as to the ability of such borrowers to comply with present repayment terms, although not currently classified as non-performing loans) amounted to approximately $2.5 million at June 30, 1992. All of these are commercial loans.

Mortgage-backed Securities

Mortgage-backed securities consist of obligations issued by FHLMC, FNMA or private issuers. Sovereign's mortgage-backed securities are generally either guaranteed as to principal and interest by the issuer or rated "AAA" or "AA" by Standard and Poor's or Moody's. At June 30, 1992, total mortgage-backed securities were $465.1 million compared to $477.1 million at December 31, 1991. For additional information on the mortgage-backed securities at June 30, 1992 and December 31, 1991, see Note 4 in the Notes to Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Investment Securities

Investment securities consist primarily of U.S. Treasury and U.S. government agency securities, corporate debt securities and stock in the Federal Home Loan Bank of Pittsburgh ("FHLB"). At June 30, 1992, total investment securities were $58.1 million compared to $47.4 million at December 31, 1991. This increase was due to the purchase of U.S. Agency securities for the liquidity portfolio coupled with the sale of certain corporate securities. For additional information on the investment securities at June 30, 1992 and December 31, 1991, see Note 3 in the Notes to Consolidated Financial Statements.

Sovereign has the ability to hold its mortgage-backed and investment securities to maturity, and it is management's intent to hold these securities to maturity and redeem them at par value. Nevertheless, the level and composition of mortgage-backed and investment securities may change due to purchases, maturities and unforseen liquidity requirements. The decision to purchase mortgage-backed and investment securities is based upon management's current assessment of economic conditions, financial markets, regulatory requirements, and tax legislation. The sale of securities is not, and has not been significantly influenced by unrealized appreciation or depreciation in the investment portfolio.

Deposits

Deposits are attracted from within Sovereign's primary market area through the offering of various deposit instruments including NOW accounts, money market accounts, regular savings accounts, certificate accounts and retirement savings plans.

Total deposits at June 30, 1992 were $1.23 billion compared to $1.26 billion at December 31, 1991. The decrease in deposits is the result of the low interest rates offered on certificates of deposit when compared to other investment alternatives as well as management's desire to use lower cost borrowings to fund asset growth. For additional information on the deposit portfolio composition at June 30, 1992 and December 31, 1991, see Note 6 in the Notes to Consolidated Financial Statements.

Borrowings

Sovereign utilizes borrowings as a source of funds for its asset growth. Collateralized advances are available from the FHLB provided certain standards related to creditworthiness have been met. Another source of funds for Sovereign is "reverse repurchase agreements." Reverse repurchase agreements are short-term obligations collateralized by a security interest in United States government securities or securities fully guaranteed as to principal and interest by the United States or an agency thereof.

Total borrowings at June 30, 1992 were $489.2 million of which $441.6 million were short-term compared to $279.3 million of which $271.0 million were short-term at December 31, 1991. Borrowings have increased as they have been used to fund growth in loans and mortgage-backed securities. For additional information on the borrowings at June 30, 1992 and December 31, 1991, see Note 7 in the Notes to Consolidated Financial Statements.

Stockholders Equity

Total stockholders' equity at June 30, 1992 was $96.1 million compared to $90.1 million at December 31, 1991. This increase is attributable to the retention of earnings and the sale of Treasury stock less dividends paid to shareholders.

ASSET AND LIABILITY MANAGEMENT

The one year gap is the most common measure of interest rate risk and is the ratio representing the difference between assets and liabilities which will mature or reprice within one year expressed as a percentage of total assets. Sovereign estimates that its cumulative one year gap to total assets was 10.30% at June 30, 1992 compared to 15.22% at December 31, 1991.

Pursuant to its interest rate risk management strategy, Sovereign has been emphasizing the purchase and origination of adjustable rate assets. At June 30, 1992, 62% of Sovereign's assets reprice or mature in one year or less. Furthermore, Sovereign varies the indices to which its adjustable rate loans reprice. While a majority of Sovereign's loans historically repriced to the one year constant maturity Treasury index, a significant number now reprice to indices such as the Prime rate and the 11th District Cost of Funds rate. At June 30, 1992, 69% of Sovereign's adjustable rate mortgage loans and mortgage-backed securities reprice to the Treasury index while 31% of these loans and securities reprice to other indices.

LIQUIDITY AND CAPITAL RESOURCES

Sovereign Bank is required under applicable federal regulations to maintain specified levels of "liquid" investments in cash and United States government and other qualifying investments. Regulations currently in effect require Sovereign Bank to maintain liquid assets of not less than 5% of its net withdrawable accounts plus short-term borrowings, of which short-term liquid assets must consist of not less than 1%. These levels are changed from time to time by the Office of Thrift Supervision ("OTS") to reflect economic conditions. Sovereign Bank's liquidity ratio was 5.82% for June 30, 1992.

Sovereign's primary financing sources are deposits obtained in its own market area, borrowings in the form of securities sold under repurchase agreements and advances from the FHLB. At June 30, 1992, Sovereign had $228.0 million in unpledged investments and mortgage-backed securities which could be used to collateralize additional borrowings including short-term borrowings. Sovereign Bank can also borrow up to 25% of total assets from the FHLB, subject to required collateralization. Other sources of funds include operating activities, repayments of principal on mortgage-backed and other securities, repayment of principal on loans, and other investing activities.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), among other things, requires the OTS to prescribe uniformly applicable capital standards for all savings associations. These standards currently require institutions to maintain a minimum tangible capital ratio of not less than 1.5%, a minimum leverage capital ratio of not less than 3% and a minimum risk-based capital ratio (based upon credit risk) of not less than 7.2% (8% at December 31, 1992 when fully phased-in). In all cases these standards are to be no less stringent than the capital standards that are applicable to national banks. The OTS has issued a proposed regulation that would require a minimum leverage capital requirement of 3% for associations rated composite 1 under the OTS MACRO rating system. For all other savings associations, the minimum leverage capital requirement will be 3% plus at least an additional 100 to 200 basis points.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Sovereign Bank is in compliance with all fully phased-in current capital requirements and management anticipates compliance with any new capital requirements. The following table sets forth the capital ratios of Sovereign Bancorp on a consolidated basis and Sovereign Bank and the current regulatory requirements at June 30, 1992:

	Sovereign Bancorp(1)	Sovereign Bank	Requirement
Stockholders' equity to total assets	5.19%	4.53%	None
Tangible capital to tangible assets	4.85	4.18	1.50%
Leverage (core) capital to tangible assets	4.85	4.18	3.00
Risk-based capital to risk adjusted assets	10.73	9.38	7.20

(1) OTS capital regulations do not apply to savings and loan holding companies. These ratios are computed as if those regulations did apply to Sovereign Bancorp.

PART II — OTHER INFORMATION

Items 1 through 4 are not applicable or the responses are negative.

Item 5(a) SUBORDINATED DEBENTURES

On or about August 11, 1992 Sovereign expects to file a Form S-2 with the Securities and Exchange Commission relating to an underwritten offering of $30 million of subordinated ten year debentures (the "Debentures").

Item 5(b) PENDING ACQUISITIONS

Set forth below is information with respect to certain pending transactions involving Sovereign. The information constitutes a summary only and is qualified in its entirety by reference to the detailed information with respect to each transaction set forth in this Form 10-Q and the exhibits hereto and other documents filed under the Securities Exchange Act of 1934.

Harmonia

On July 1, 1992, Sovereign entered into an agreement with Harmonia Bancorp, Inc. ("Harmonia") and its principal banking subsidiary, Harmonia Savings Bank. This Agreement was orally amended as of July 21, 1992, subject to certain conditions, including Harmonia's completion of its due diligence review of Sovereign's proposed acquisition of Jersey Shore Savings and Loan Association ("Jersey Shore"). Headquartered in Kenilworth, New Jersey, Harmonia has 17 community banking offices located throughout central New Jersey in Union, Middlesex, Monmouth, Ocean and Mercer Counties. At June 30, 1992 Harmonia had total assets, deposits and stockholders' equity of approximately $811.0 million, $715.0 million and $88.0 million, respectively.

Under the agreement, as amended, if the Market Value of Sovereign common stock (defined as the average of the closing sale prices as reported by NASDAQ) during the pricing period (the 10 consecutive trading days commencing 12 trading days before the closing date) is between $7.27 and $12.73 per share, Sovereign will pay a fixed $20.00 for each share of Harmonia common stock ($17.50 in value of Sovereign common stock and $2.50 in cash). However, if the Market Value during the pricing period increases above $12.73 per share, 1.375 shares of Sovereign common stock plus $2.50 per share in cash will be exchanged for each share of Harmonia stock outstanding. Moreover, if the closing does not occur by March 31, 1993, an additional $.25 per share is payable for each month of delay thereafter under certain circumstances. The stock/cash ratio is subject to change at Sovereign's election prior to closing, provided the cash consideration is at least $2.50 per share.

The closing date will be designated by Sovereign within the 30-day period following the first day on which the merger could occur, which is expected during the first quarter of 1993. The closing is subject to the satisfaction of certain conditions, including, among others, approval of the merger by Sovereign's shareholders and Harmonia's shareholders, the receipt of all required regulatory approvals, the receipt of fairness opinions by both Sovereign and Harmonia, the exercise by the holders of not more than 7½% of Harmonia's shares outstanding of dissenter's rights under applicable Delaware law, and the absence of any material adverse change, including in the case of Sovereign, any material adverse change resulting from its planned acquisition of Jersey Shore (see below). The parties each have a right to terminate the agreement on or after June 30, 1993, or if the Market Value of Sovereign's common stock is less than $7.27 or greater than $18.18 per share. The transaction will be accounted for as a purchase and is intended to be tax-free to Sovereign and Harmonia and to Harmonia shareholders to the extent they receive Sovereign common stock. If the transaction had been completed on June 30, 1992 at the $20.00 per share fixed acquisition price ($17.50 in Sovereign common stock and $2.50 in cash) the transaction would have had a total purchase price of approximately $87.2 million, of which at least $20 million would have been in cash. Sovereign will not be required to incur additional debt nor use the proceeds from this offering to finance the cash portion of the purchase price.

Jersey Shore

On July 28, 1992, Sovereign entered into an agreement with Jersey Shore, headquartered in Toms River, New Jersey, in an OTS facilitated transaction providing for Jersey Shore to convert from mutual to stock form, sell its stock to Sovereign and then merge with the Bank. Jersey Shore has 14 branch offices in Monmouth and Ocean Counties, New Jersey. At June 30, 1992, Jersey Shore had total assets, deposits and equity of $605.3 million, $476.3 million and $19.5 million, respectively. The transaction will be accounted for as a purchase and is expected to close in the third quarter of 1992. Sovereign's obligations under the agreement are subject to a number of conditions, including no material adverse change in Jersey Shore's financial condition or the results of its operations, Sovereign and Jersey Shore obtaining certain regulatory approvals, and purchase accounting treatment resulting in an increase of no more than $12 million in intangible assets on Sovereign's books resulting from the Jersey Shore transaction. Pursuant to this transaction, Sovereign Bank will acquire Jersey Shore's assets in exchange for assuming its liabilities (principally deposits and FHLB borrowings). At June 30, 1992, it is estimated that the fair value of Jersey Shore's liabilities exceeded the fair value of its assets (including an estimated $4.7 million core deposit intangible asset) by approximately $3.3 million (goodwill). OTS is facilitating the acquisition of Jersey Shore on these terms and conditions because Jersey Shore, despite having almost $20 million of equity in accordance with generally accepted accounting principles, is not currently in compliance with its regulatory capital requirements. Jersey Shore has been profitable for the last ten years, but in 1982 Jersey Shore, with supervisory assistance, acquired another thrift institution which created approximately $39 million of supervisory goodwill of which approximately $20 million remained at June 30, 1992. Supervisory goodwill no longer fully qualifies for regulatory capital pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended.

Item 5(c) PRO FORMA SUMMARY FINANCIAL DATA

The following tables set forth selected unaudited pro forma financial data reflecting the proposed acquisitions of Harmonia and Jersey Shore (each of which will be accounted for using the purchase method of accounting), the repayment of all of Jersey Shore's FHLB advances, the repayment of the outstanding Harmonia Employee Stock Ownership Plan ("ESOP") debt and the sale of Jersey Shore's single family residential nonperforming loans (collectively, the "Transactions"). The following tables also give effect to the issuance of the Debentures and the application of the proceeds therefrom.

Pro forma end of period balances for June 30, 1992 were prepared assuming the Transactions had occurred on such date. The pro forma consolidated information related to earnings for the six-month period ended June 30, 1992 and the year ended December 31, 1991 gives effect to the Transactions as if they had occurred on January 1, 1992 and January 1, 1991, respectively, with pro forma adjustments based on estimated market values as of June 30, 1992. The pro forma consolidated information related to earnings for the year ended December 31, 1991 reflects the earnings of Jersey Shore for its fiscal year ended March 31, 1992. This information is provided for illustrative purposes only and is based on, and should be read in conjunction with, the notes to such pro forma statements and the historical financial statements, including related notes, included elsewhere herein, and is not necessarily indicative of the results of operations or financial position which would have resulted had the Transactions occurred on such dates or of future results of operations or financial position. No assurance can be given that the Transactions will be consummated on the terms and conditions described therein or with the estimated market values and pro forma purchase price adjustments set forth in the following tables.

The pro forma information has been prepared based upon the $20.00 per share fixed acquisition price for Harmonia ($17.50 in Sovereign common stock and $2.50 in cash) at June 30, 1992. The $20.00 per share price is subject to increase under certain circumstances and the mix of stock and cash is subject to change at Sovereign's election, as more fully discussed under "Pending Acquisitions." Sovereign does not presently intend to change the cash/stock mix. The pro forma information has been prepared assuming that, in accordance with the agreement between Harmonia and Sovereign, unallocated shares of Harmonia common stock held in the Harmonia ESOP and all nonvested shares held in the Harmonia Management Recognition and Retention Plans ("MRP") are exchanged for $20.00 in cash per share. The pro forma information has also been prepared assuming that incentive stock options to purchase 475,000 shares of Harmonia common stock are cancelled in exchange for $10.00 in cash per share, as required by the agreement. Pursuant to the agreement, it is anticipated that the debt related to the Harmonia ESOP will be repaid with the cash received by the ESOP in exchange for its unallocated shares of Harmonia common stock. In addition, the agreement provides for cash payments in satisfaction of certain Harmonia employment agreement obligations.

Sovereign expects to achieve certain operating cost savings through the consolidation of certain back office and support functions, possible consolidations of community bank offices and through the elimination of redundant costs. Sovereign expects that operating cost savings will be achieved in various amounts at various times and not ratably over or at the beginning of any specific period. Therefore, there can be no certainty of the amount or timing of any operating cost savings which may be realized. The pro forma financial information does not reflect any of these anticipated operating cost savings.

PRO FORMA UNAUDITED BALANCE SHEET

JUNE 30, 1992

(In thousands)

	Sovereign	Sovereign Adjustments	Harmonia	Harmonia Adjustments	Jersey Shore	Jersey Shore Adjustments	Sovereign Combined
Cash and amounts due from depository institutions	$ 20,708		$ 13,051	$(25,769)(2)	$ 11,734	$ 14,117(9)(10)	$ 33,842
Interest-earning deposits and federal funds sold	21,597	$30,000(1)	11,700		31,656		94,953
Loans and mortgage-backed securities held for resale	11,321				28,202		39,523
Investment and mortgage-backed securities	523,244		401,867	1,482 (3)	230,916	(79,515)(3)(11)	1,077,994 2,915,776
Loans	1,244,375		364,942	(4,290)(3)	256,829	(24,074)(3)(9)	1,837,782
Allowance for possible loan losses	(11,924)		(3,118)		(2,979)		(18,021)
Premises and equipment	13,497		6,868	1,613(4)	4,221	2,000(4)	28,199
Goodwill and other intangible assets	6,569		628	5,123(5)	19,599	(11,516)(5)	20,403
Other assets	23,282		15,110		25,151	(462)(12)	63,081
TOTAL ASSETS	$1,852,669	$30,000	$811,048	$(21,841)	$605,329	$(99,450)	$3,177,755
Deposits	$1,230,713		$714,991	$ 673(6)	$476,330	$ 1,500(6)	$2,424,207
Short-term borrowings	441,596				61,500	(61,500)(11)	441,596
Long-term borrowings	47,649	$30,000(1)	1,735	(1,735)(7)	20,000	(20,000)(11)	77,649
Other liabilities	36,579		6,325		28,048		70,952
TOTAL LIABILITIES	$1,756,537	$30,000	$723,051	$ (1,062)	$585,878	$(80,000)	$3,014,404
Common stock	$ 79,027		$ 41,666	$ 25,553(8)			$ 146,246
Retained earnings	17,269		51,194	(51,194)(8)	$ 19,451	$(19,451)(13)	17,269
Treasury stock	(164)		(4,863)	4,863(8)			(164)
TOTAL STOCKHOLDERS' EQUITY	96,132		87,997	(20,778)	19,451	(19,451)	163,351
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,852,669	$30,000	$811,048	$(21,840)	$605,329	$(99,451)	$3,177,755

See accompanying notes.

Notes To Pro Forma Unaudited Balance Sheet
(In thousands, except share data)

(1) The issuance of Debentures contemplated by this offering before expenses of issuance.

(2) Total of all cash payments related to the acquisition of Harmonia, allocated as follows:

Cash portion of purchase price	$ 9,603
Cash exchanged for ESOP shares	3,760
Cash exchanged for MRP shares	1,900
Cash exchanged for incentive stock options	4,750
Cash payments for employment agreements, net of applicable income tax effect	4,766
Estimated closing costs	990
Total	$25,769

See "Pending Acquisitions" for a discussion of the cash portion of the purchase price.

(3) Valuation adjustments based upon yield and maturity as compared to similar investments and loans, net of applicable income tax effects.

(4) Valuation adjustments to furniture, fixtures and equipment, net of applicable income tax effects. Based upon estimated market values which are subject to adjustment upon final determination of value.

(5) Elimination of existing goodwill/resulting new goodwill and core deposit intangibles, net of applicable income tax effect.

(6) Valuation adjustments based upon rate and maturity as compared to alternative sources of funds, net of applicable income tax effects.

(7) Elimination of ESOP debt.

(8) Issuance of $17.50 in value of Sovereign common stock in exchange for each of 3,841,000 shares of Harmonia common stock (4,124,000 shares of Harmonia common stock currently outstanding less 283,000 shares related to Harmonia's ESOP and MRP) and elimination of Harmonia's existing capital.

(9) Sale of $20,774 of Jersey Shore's single family residential nonperforming loans for net proceeds of $15,701. Sovereign has received indications of interest for the purchase of these loans at price levels at or above this amount, but no agreements for the sale have been entered into.

(10) Penalty related to the prepayment of Jersey Shore's Federal Home Loan Bank ("FHLB") advances, net of applicable income tax effect.

(11) Repayment of Jersey Shore's FHLB advances and sale of mortgage-backed securities.

(12) Valuation adjustment for Jersey Shore's loan servicing assets, net of applicable income tax effects.

(13) Elimination of Jersey Shore's existing equity.

PRO FORMA UNAUDITED INCOME STATEMENT

SIX MONTHS ENDED JUNE 30, 1992

(In thousands, except per share data)

	Sovereign	Sovereign Adjustments	Harmonia	Harmonia Adjustments	Jersey Shore	Jersey Shore Adjustments	Sovereign Combined
Interest income	$70,545	$1,001 (A)	$27,792	$ (835)(D)(E)	$21,655	$(2,439)(E)(I)(L)	$117,719
Interest expense	42,538	1,275 (B)	15,179	(128)(F)(G)	16,264	(2,652)(G)(J)	72,476
Net interest income	28,007	(275)	12,613	(707)	5,391	213	45,243
Provision for possible loan losses	4,460	—	1,179	—	255	—	5,904
Net interest income after provision for possible loan losses	23,547	(275)	11,434	(707)	5,126	213	39,339
Gain on sale of loans, investment securities and mortgaged-backed securities	275		86		474		835
Gain on sale of loans and mortgage-backed securities held for resale	1,096				1,502		2,598
Non-interest income	2,158		983		2,046		5,187
Non-interest expense ...	14,610		8,898	397 (H)(K)	7,320	(119)(H)(K)(M)	31,106
Income before taxes	12,466	(275)	3,605	(1,104)	1,828	332	16,853
Income taxes	5,900	(104)(C)	1,680	(196)(C)	816	(26)(C)	8,070
Net income	$ 6,566	$ (170)	$ 1,925	$ (908)	$ 1,012	$ 358	$ 8,783
Earnings per share.......	$ .54						$ .50
Average shares outstanding	12,324						17,701

See accompanying notes.

PRO FORMA UNAUDITED INCOME STATEMENT

YEAR ENDED DECEMBER 31, 1991

(In thousands, except per share data)

	Sovereign	Sovereign Adjustments	Harmonia	Harmonia Adjustments	Jersey Shore	Jersey Shore Adjustments	Sovereign Combined
Interest income	$128,083	$2,001 (A)	$59,964	$(1,670)(D)(E)	$47,999	$(6,492)(E)(I)(L)	$229,884
Interest expense	89,565	2,550 (B)	37,583	(321)(F)(G)	38,315	(7,179)(G)(J)	160,513
Net interest income	38,518	(549)	22,381	(1,350)	9,684	687	69,371
Provision for possible loan losses	6,007	—	2,343	—	1,770	—	10,120
Net interest income after provision for possible loan losses	32,511	(549)	20,038	(1,350)	7,914	687	59,251
Gain on sale of loans, investment securities and mortgaged-backed securities	(478)		305				(173)
Gain on sale of loans and mortgage-backed securities held for resale	854				4,904		5,758
Non-interest income	3,370		2,235		4,771		10,376
Non-interest expense ...	21,205	—	16,972	794 (H)(K)	14,756	(238)(H)(K)(M)	53,489
Income before taxes	15,052	(549)	5,606	(2,144)	2,833	925	21,723
Income taxes	7,247	(209)(C)	2,868	(392)(C)	1,241	47 (C)	10,803
Net income	$ 7,805	$ (340)	$ 2,738	$(1,752)	$ 1,592	$ 878	$ 10,920
Earnings per share.......	$ .84						$ .74
Average shares outstanding	9,333						14,710

See accompanying notes.

Notes To Pro Forma Unaudited Income Statements
(In thousands, except share data)

(A) Interest income from the investment of the proceeds from the issuance of the Debentures.

(B) Interest expense related to the issuance of the Debentures at a rate assumed to be 8.5%. The amount of interest expense will increase or decrease $72.5 for the year ended December 31, 1991, and $36.3 for the six months ended June 30, 1992, for each .25% change in such rate.

(C) Sovereign: Decrease in tax expense related to the reduction in net interest income. See notes (A) and (B).

Harmonia: Decrease in tax expense related to the reduction in net interest income. See note (D).

Jersey Shore: Increase/decrease in tax expense related to the increase/decrease in net interest income. See notes (I)(J)(L).

(D) Reduction of interest income related to the payment of $25,769 of cash for the Harmonia acquisition.

(E) Amortization of market value adjustments on investments, mortgage-backed securities and loans.

(F) Elimination of interest expense related to Harmonia's ESOP debt.

(G) Amortization of market value adjustments on certificates of deposit.

(H) Elimination of old goodwill amortization/addition of new goodwill and core deposit amortization.

(I) Interest income from the investment of additional cash (principally proceeds from the sale of nonperforming loans net of prepayment penalty applicable to FHLB advances).

(J) Reduction of interest expense resulting from the prepayment of Jersey Shore's FHLB advances.

(K) Amortization of market value adjustments on furniture, fixtures and equipment based on estimated market values which are subject to adjustment based on receipt of appraisals.

(L) Reduction of interest income resulting from the sale of mortgage-backed securities.

(M) Amortization of market value adjustments on Jersey Shore's loan servicing assets.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits — 1. Agreement and Plan of Merger dated July 29, 1992, by and among Sovereign Bank, FSB, Sovereign Bancorp, Inc. and Jersey Shore Savings and Loan Association.

(b) Reports on Form 8-K

Report on Form 8-K dated June 11, 1992, described the signing of a letter of intent (the "Letter") between Sovereign and Harmonia. The Letter provided for the exchange of Sovereign common stock and cash for Harmonia common stock, and the merger of Harmonia into and with Sovereign, subject to certain consitions.

Report on Form 8-K, dated July 1, 1992, described the signing of a definitive merger agreement (the "Agreement") between Sovereign and Harmonia. The Agreement provides for the exchange of Sovereign common stock and cash for Harmonia common stock, and the merger of Harmonia into and with Sovereign, subject to certain conditions.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOVEREIGN BANCORP, INC.
(Registrant)

Date August 11, 1992

/s/Karl D. Gerhart
Karl D. Gerhart
Chief Financial Officer

Date August 11, 1992

/s/Richard A. Elko
Richard A. Elko
Chief Accounting Officer

at 0 27000
0-33005

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR QUARTER ENDED June 30, 1992

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____________ TO ____________.

Commission File Number 0-2958

TSI INCORPORATED
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	41-0843524 (I.R.S. Employer Identification Number)

500 Cardigan Road
Shoreview, Minnesota
(Address of principal executive offices)

55126
(Zip Code)

Registrant's telephone number, including area code: (612) 483-0900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Date: July 20, 1992 Number of Common Shares Outstanding: 3,490,159

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TSI Incorporated

FORM 10-Q
For the Quarter Ended June 30, 1992

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition 7 and 8

TSI Incorporated and Subsidiaries

Consolidated Statements of Earnings
(Unaudited)

Three Months Ended June 30	1992	1991
Net sales	$9,989,784	$8,905,192
Cost of products sold	4,318,416	3,775,106
Gross Profit	5,671,368	5,130,086
Operating expenses:		
Research & product development	1,491,548	1,424,716
Selling	2,707,164	2,578,840
Administrative	854,940	757,918
	5,053,652	4,761,474
Operating Income	617,716	368,612
Other income	79,907	143,079
Earnings Before Income Taxes	697,623	511,691
Provision for income taxes	230,000	194,000
Net Earnings Before Cumulative Effect of Accounting Change	467,623	317,691
Cumulative effect of accounting change for income taxes	—	73,000
Net Earnings	$ 467,623	$ 390,691
Earnings per common share:		
Earnings before cumulative effect of accounting change	$.13	$.09
Cumulative effect of accounting change for income taxes	—	.02
Net Earnings Per Common Share	$.13	$.11
Weighted average number of shares for computation of earnings per common share	3,582,024	3,722,912

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

Period Ended	June 30 1992 (unaudited)	March 31 1992	June 30 1991 (unaudited)
Assets			
Current Assets			
Cash and cash equivalents	$ 4,400,495	$ 5,951,993	$ 4,816,921
Accounts receivable	7,453,555	7,436,403	7,122,423
Prepaid expenses	378,766	182,149	423,086
Income taxes receivable	—	25,587	—
Inventories:			
Finished products	1,625,857	1,629,655	1,859,268
Work-in-process	1,481,180	1,503,039	2,096,669
Materials and supplies	2,950,826	2,848,038	2,922,348
	6,057,863	5,980,732	6,878,285
Total Current Assets	18,290,679	19,576,864	19,240,715
Intangibles and Other Assets			
Goodwill	1,259,007	1,269,319	1,300,255
Note receivable	354,937	363,062	449,937
Recoverable income taxes	—	—	1,030,496
Other assets	677,150	705,392	744,186
	2,291,094	2,337,773	3,524,874
Property, Plant and Equipment			
Land	128,503	128,503	128,503
Building	1,039,070	1,039,070	1,039,070
Machinery and equipment	10,277,022	10,041,959	9,412,025
Construction in progress	340,091	296,538	29,178
	11,784,686	11,506,070	10,608,776
Less allowance for depreciation	7,709,163	7,526,271	6,712,131
	4,075,523	3,979,799	3,896,645
Total Assets	$24,657,296	$25[illegible]94,436	$26,662,234
Liabilities & Shareholders' Equity			
Current Liabilities			
Accounts payable & accrued expenses	$ 2,331,669	$ 2,856,379	$ 2,479,003
Employee compensation	1,540,463	1,665,808	1,693,221
Taxes, other than income taxes	244,710	354,635	344,974
Income taxes payable	199,803	—	1,080,181
Current maturities of long-term liabilities	85,000	85,000	172,644
Total Current Liabilities	4,401,645	4,961,822	5,770,023
Long-Term Liabilities, less current maturities	845,000	880,000	965,000
Deferred Income Taxes	134,967	134,967	717,096
Total Liabilities	5,381,612	5,976,789	7,452,119
Shareholders' Equity			
Common Shares, $.10 par value	346,366	357,563	358,962
Additional paid-in capital	4,287,166	4,397,542	4,011,186
Retained earnings	14,370,454	14,937,552	14,693,193
Equity adjustment from translation	271,698	224,990	146,774
Total Shareholders' Equity	19,275,684	19,917,647	19,210,115
Total Liabilities and Shareholders' Equity	$24,657,296	$25,894,436	$26,662,234

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(Unaudited)

Three Months Ended June 30	1992	1991
Operating Activities		
Net earnings	$ 467,623	$ 390,691
Adjustments to reconcile net earnings to net cash provided (used in) by operating activities:		
Provision for losses on accounts receivable	5,765	—
Depreciation and amortization of property, plant and equipment	242,392	254,964
Amortization of goodwill and net operating loss carryforward	10,312	10,310
(Gain) loss on sale of assets	(24,277)	28,868
Cumulative effect of accounting change for income taxes	—	(73,000)
Changes in operating assets & liabilities:		
Accounts receivable	(22,917)	1,904,393
Prepaid expenses	(196,617)	(254,436)
Income taxes receivable	25,587	—
Inventories	(77,131)	(480,470)
Other assets	36,367	(117,242)
Accounts payable and accrued expenses	(524,710)	(313,984)
Employee compensation payable	(125,345)	23,915
Taxes, other than income taxes	(109,925)	(103,250)
Current income taxes payable	199,803	170,591
Foreign currency transaction (gain) loss	10,742	(14,849)
Net Cash Provided (Used In) by Operating Activities	(82,331)	1,426,501
Investing Activities		
Additions to property, plant and equipment	(320,703)	(270,774)
Proceeds from disposal of property, plant and equipment	29,304	1,456
Net Cash Used in Investing Activities	(291,399)	(269,318)
Financing Activities		
Principal payments on notes payable, long-term debt and capital lease obligations	(35,000)	(63,788)
Proceeds from exercise of employee stock options	17,588	195,855
Dividends paid	(142,444)	(145,315)
Purchases of common stock	(1,031,438)	(43,160)
Net Cash Used in Financing Activities	(1,191,294)	(56,408)
Effect of exchange rate change on cash and cash equivalents	13,526	(21,766)
Increase (Decrease) in Cash and Cash Equivalents	(1,551,498)	1,079,009
Cash and cash equivalents at beginning of year	5,951,993	3,737,912
Cash and Cash Equivalents at End of Three-Month Period	$ 4,400,495	$ 4,816,921

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1992
(Unaudited)

Note 1: Basis of Presentation

The information included in the foregoing interim financial statements is unaudited. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented have been reflected herein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

Note 2: Earnings Per Share

See Exhibit 11, Computation of Per Share Earnings, on page 11. of this document.

Note 3: Restatement of Prior Periods

Effective April 1, 1991, the Company adopted Statement of Financial Accounting Standard No. 109 (FAS 109). The cumulative effect of this change in accounting related to years prior to fiscal 1992, was to increase fiscal 1992 net earnings by $73,000 ($.02 per share). As a result of the change, the Consolidated Statement of Net Earnings for the three month period ended June 30, 1991 has been restated to give effect to this change as of April 1, 1991.

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net sales for the three month period ended June 30, 1992 were $9,990,000. This represents an increase of 12.2 percent from $8,905,000 for the same period a year ago. The Environmental Monitoring and Control market area, which accounted for 56 percent of the Company's business in fiscal 1992, experienced the largest growth in net sales during the quarter, rising 23 percent from the same quarter a year ago. Contributing to this growth was an $850,000 contract shipment by Handar, the Company's wholly owned California subsidiary, and stronger sales in the industrial test instruments and microcontamination (clean room) market niches. The Research market niches, about 40 percent of fiscal 1992 net sales, grew by about 6 percent while the Industrial Process Control instruments, about 4 percent of fiscal 1992 net sales, showed a decrease in net sales of approximately 57 percent.

Gross profit for this quarter was 56.8 percent of net sales compared to 57.6 percent for the first quarter last year. Historically, the Company's gross profit has been in a range of 57 to 60 percent of net sales. The lower gross profit percentage for the first three months of fiscal 1993 did not result from any one dominant factor, but rather from a combination of several factors including a lower margin development contract, discounts, purchase variances and product mix. These are not considered to represent a trend.

Research and product development expenses were 14.9 percent of net sales for the three month period ended June 30, 1992 as compared to 16.0 percent of net sales for the same period last year. The decrease in research and product development expenses as a percentage of net sales is mostly the result of increased net sales in the fiscal 1993 period as compared to fiscal 1992. Actual research and product development spending is up 5.7 percent reflecting the Company's continued commitment to growth through development of new technologies and products.

Selling expenses were 27.1 percent of net sales for the first three months of fiscal 1993 compared to 29.0 percent of net sales for the same period in fiscal 1992. The decrease in selling expenses as a percentage of net sales continues a trend toward lower percentages in this category. Actual expenses rose 5.0 percent.

Administrative expenses were 8.6 percent and 8.5 percent for the quarters ending June 30, 1993 and 1992, respectively. The Company expects administrative costs to continue in a normal operating range of 7 to 9 percent of net sales through the remainder of fiscal 1993.

Results of Operations (continued)

Other income was $80,000 in the first quarter of fiscal 1993 compared to $143,000 in the first quarter of fiscal 1992. This decrease in other income is primarily due to a first quarter loss of $23,000 on income is prim currency transactions compared with a $31,000 gain during the same period in fiscal 1992.

The provision for income taxes was 33 percent of pre-tax earnings for the first quarter of fiscal 1993 compared with 38 percent for the same period in fiscal 1992. The decrease in the effective tax rate is mainly attributable to the settlement and full recognition of the disqualification of the Company's DISC during fiscal 1992. The Company expects its effective tax rate to be near the first quarter rate for the remainder of fiscal 1993, given normal operating conditions and assuming no significant changes in the tax laws.

Liquidity and Capital Resources

Cash and cash equivalents decreased by $1,552,000 to $4,400,000 at June 30, 1992 from $5,952,000 at March 31, 1992. This decrease was mainly attributable to the repurchase of 104,500 shares of the Company's common stock.

During the first quarter of fiscal 1993, the Company repurchased 104,500 shares of its own common stock as authorized by the Board of Directors under the fiscal 1992 repurchase plan. On July 23, 1992, the Board of Directors authorized the repurchase of 250,000 shares of the Company's common stock on the open market or by privately negotiated transactions. This new authorization replaces the fiscal 1992 repurchase plan which as of July 23, 1992, still had 56,400 shares remaining for repurchase. Currently, management has no plans to acquire all of the authorized shares or to repurchase shares at any prescribed rate over time.

The ratio of current assets to current liabilities was 4.2 as of June 30, 1992, compared to 3.9 on March 31, 1992. Working capital was $13,889,000 at the end of the first quarter of fiscal 1993, compared to $14,615,000 at the end of fiscal 1992.

Management believes internally-generated funds and short-term borrowings on existing credit lines will provide adequate resources to support current operations during the remainder of fiscal 1993 and into fiscal 1994.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a vote of Security Holders

On July 23, 1992, the Company conducted its annual meeting of stockholders. At this meeting Leroy M. Fingerson and Donald M. Sullivan were reelected to the Board of Directors for three year terms. There were no other changes to the board. Also, at this meeting, the stockholders voted to adopt the Company's Stock Option Plan of 1992, to reserve shares for issuance thereunder, and ratified the appointment of KPMG Peat Marwick as the independent auditors for the Company for the fiscal year ending March 31, 1993.

Item 5. Other Information

On July 23, 1992, Jim E. Doubles was elected by the Board of Directors to the office of President and Chief Operating Officer. Mr. Doubles previously served as Executive Vice President and Chief Operating Officer. Dr. Leroy M. Fingerson will continue as Chief Executive Officer and Chairman of the Board of Directors.

Also on July 23, 1992, the Board of Directors elected Laura J. Cochrane to the office of Secretary of the corporation. Ms. Cochrane is a 10 year TSI employee, has been a member of the Minnesota Bar since 1988 and currently serves in the position of Internal Counsel.

Item 6. Exhibits and Reports on FORM 8-K

(a) Exhibits:

Exhibit 11 - Computation of Per Share Earnings.

(b) Reports on Form 8-K:

No reports on Form 8-K have been filed by the Registrant during the quarter for which this report is being filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: TSI Incorporated

August 10, 1992
Date

By:
Leroy M. Fingerson
Chairman and
Chief Executive Officer

August 10, 1992
Date

By: Lowell Nyst
Lowell D. Nystrom
Vice President and
Chief Financial Officer

EXHIBIT 11

TSI Incorporated

Computation of Per Share Earnings

	Three Month Period Ended June 30, 1992	1991
Primary		
Average shares outstanding	3,513,724	3,589,202
Net effect of dilutive stock options, based on the treasury stock method using average market price	68,300	133,710
TOTAL	3,582,024	3,722,912
Net Earnings	$467,623	$390,691
Primary per share amounts	$.13	$.11
Fully Diluted		
Average shares outstanding	3,513,724	3,589,202
Net effect of dilutive stock options, based on the treasury stock method using the period-end market price, if higher than the average market price	68,300	133,710
TOTAL	3,582,024	3,722,912
Net Earnings	$467,623	$390,691
Fully diluted per share amounts	$.13	$.11

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 1992

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ________________

Commission file number 0-10319

VARI-CARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**16-0960645**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

800 Medical Arts Bldg.
277 Alexander St., Rochester, New York **14607**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(716)325-6940**

NONE
Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes ____ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding as of August 7, 1992
Common Stock, Par Value $.01 Per Share	5,284,158

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PART I - FINANCIAL INFORMATION

Summarized Financial Information

All adjustments which in the opinion of management are necessary for a fair presentation of financial information contained herein have been made. All such adjustments are of normal recurring nature.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (Unaudited)

	For the 3 Months Ended		For the 9 Months Ended	
	6/30/92	6/30/91	6/30/92	6/30/91
Operating Revenues (net)	$ 16,261,623	$ 13,085,739	$ 46,537,356	$ 38,429,490
Operating cost and expenses:				
Operating-exclusive of depreciation, amortization and rent	10,291,648	8,684,436	30,115,542	25,139,619
Depreciation and Amortization	514,805	514,678	1,539,471	1,385,418
Rent	132,810	140,976	421,887	436,451
General and Administrative	3,176,693	2,916,588	9,471,830	8,490,036
Interest	593,596	636,357	1,870,116	1,810,118
Total costs and expenses	14,709,552	12,893,035	43,418,846	37,261,642
Income before income taxes	1,552,071	192,704	3,118,510	1,167,848
Provision for income taxes				
Currently Payable	278,500	40,100	860,000	352,000
Deferred	323,700	30,100	355,000	90,300
	602,200	70,200	1,215,000	442,300
Net Income	$ 949,871	$ 122,504	1,903,510	725,548
Retained earnings at beginning of year			7,881,699	7,135,314
Less - Dividends paid at $.04 per share each year			(211,366)	(211,246)
Retained earnings at end of period			$ 9,573,843	$ 7,649,616
Net Income per common and common equivalent share	$ 0.18	$ 0.02	$ 0.36	$ 0.14
Dividends per share	$ 0.04	$ 0.04	$ 0.04	$ 0.04

CONSOLIDATED BALANCE SHEET

(unaudited)

Assets

	6/30/92	9/30/91
Current Assets:		
Cash, including interest-bearing accounts of $1,194,000 and $219,000 respectively	$ 3,040,749	$ 1,746,454
Accounts receivable, less allowance for doubtful accounts of $522,000 and $222,000, respectively	4,552,203	4,716,639
Prepaid expenses	533,868	205,569
Total Current Assets	8,126,820	6,668,662
Fixed assets, at cost	52,552,403	52,079,702
Less- Accumulated depreciation and amortization	(16,580,083)	(15,369,351)
	35,972,320	36,710,351
Other assets:		
Leasehold and other acquisition costs, less amortization of $1,258,036 and $1,172,305 respectively	1,250,502	1,320,254
Other noncurrent assets	1,984,749	1,004,774
	3,235,251	2,325,028
	$ 47,334,391	$ 45,704,041

Liabilities and Shareholders' Equity

	6/30/92	9/30/91
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 1,616,014	$ 1,616,014
Accounts payable	2,112,417	2,476,629
Federal and state income taxes payable	227,750	201,151
Advance payments from residents	352,029	272,049
Accrued expenses and other liabilities-		
Payrolls	936,888	869,738
Payroll and other taxes	480,750	382,125
Vacation pay and other payroll benefits	306,626	403,695
Other	1,477,266	425,554
Total Current Liabilities	7,509,740	6,646,955
Long-term debt	22,210,752	22,875,657
Capital lease obligations	6,168,452	6,783,126
Deferred income taxes	978,400	623,400
Shareholders' equity:		
Common stock, par value $.01 per share- Authorized- 10,000,000 shares Issued- 5,437,110 shares in each period	1,061,754	1,061,754
Retained earnings	9,573,843	7,881,699
	10,635,597	8,943,453
Less-Treasury stock, at cost- 152,953 shares	(168,550)	(168,550)
	10,467,047	8,774,903
	$ 47,334,391	$ 45,704,041

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	9 Months Ended 6-30-92	9 Months Ended 6-30-91
OPERATING ACTIVITIES:		
Net income	$ 1,903,510	$ 725,548
Depreciation and amortization	1,539,471	1,385,418
Provision for losses on accounts receivable	300,000	169,000
Provision for deferred income taxes	355,000	90,300
Gain on the sale of fixed assets	(792,522)	
Changes in operating assets and liabilities		
Accounts receivable	(135,564)	(323,051)
Prepaid expenses	(328,299)	159,704
Accounts payable	(364,212)	653,252
Advance payments from residents	79,980	(10,536)
Accrued expenses and other liabilities	1,120,418	133,918
Federal and state income taxes payable	26,599	(73,154)
Net cash provided by operating activities	3,704,381	2,910,399
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,186,769)	(5,152,883)
Purchase of leasehold acquisitions and other costs	(29,152)	(159,425)
Net cash used in investing activities	(1,215,921)	(5,312,308)
FINANCING ACTIVITIES:		
Proceeds from current borrowing	296,780	2,918,093
Principal payments-long term debt and capital leases	(1,279,579)	(589,775)
Proceeds from exercised stock warrants		9,472
Dividends paid	(211,366)	(211,246)
Net cash <used in> provided by financing activities	(1,194,165)	2,126,544
Increase in cash	1,294,295	(275,365)
Cash - beginning of period	1,746,454	2,122,876
Cash - end of period	$ 3,040,749	$ 1,847,511

Supplemental Schedule of Non-Cash Investing and Financing Activities

In connection with the sale of the Phenix City Nursing Home, the company will purchase in conjunction with a like-kind exchange the Fairview Nursing Home. Accordingly, proceeds of $994,000 were held in escrow at June 30, 1992.

Nine Months ended June 30, 1991

Capital lease obligations of $930,000 were incurred in conjunction with the opening of the Renaissance and the Boulevard Manor addition

Supplemental Disclosure of Cash Flow Information During the Nine Months Ended

Interest paid	$ 1,870,116	$ 1,810,118
Income taxes paid, net	257,865	459,581

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

THREE MONTHS ENDED JUNE 30, 1992 COMPARED TO THREE MONTHS ENDED JUNE 30, 1991
AND
NINE MONTHS ENDED JUNE 30, 1992 COMPARED TO NINE MONTHS ENDED JUNE 30, 1991

The following table lists items in the Company's unaudited Consolidated Statement of Income and Retained Earnings and sets forth the dollar and percentage increase (decrease) in those items based upon a comparison of the periods indicated.

	Three Months Ended 6/30/92 Compared to Three Months Ended 6/30/91		Nine Months Ended 6/30/92 Compared to Nine Months Ended 6/30/91	
	Increase (decrease)	% Change in Compared Periods	Increase (decrease)	% Change in Compared Periods
I. TOTAL REVENUES				
1. Operating Revenues (net)	$3,175,884	24.3%	$8,107,866	21.1%
II. OPERATING COSTS AND EXPENSES				
2. Operating-exclusive of depreciation, amortization and rent	$1,607,212	18.5%	$4,975,923	19.8%
a. Operating Wages	$ 602,815	10.2%	$2,338,989	13.7%
b. Food, Operating Supplies and Expense	$ 459,238	37.1%	$1,196,901	32.5%
c. Repairs, Maintenance and Utilities	$ 29,726	4.8%	$ 192,545	11.5%
d. Ancillary Services	$ 515,433	56.7%	$1,247,488	46.1%
	$1,607,212		$4,975,923	
3. Depreciation and Amortization	$ 127	0.02%	$ 154,053	11.1%
4. Rent	$ (8,166)	(5.8%)	$ (14,564)	(3.3%)
5. General and Administrative	$ 260,105	8.9%	$ 981,794	11.6%
a. Administrative Salaries	$ 73,456	8.5%	$ 285,672	11.3%
b. Payroll Taxes and Employee Insurance	$ 75,076	6.5%	$ 221,313	6.6%
c. Legal, Accounting and Stockholder	$ (23,109)	(16.5%)	$ (66,254)	(15.4%)
d. Other	$ 134,682	17.6%	$ 541,063	24.4%
	$ 260,105		$ 981,794	
6. Interest Expense	$ (42,761)	(6.7%)	$ 59,998	3.3%
Total Costs and Expenses	$1,816,517	14.1%	$6,157,204	16.5%
III. INCOME BEFORE INCOME TAXES	$1,359,367	705.4%	$1,950,662	167.0%
IV. NET INCOME	$ 827,367	675.4%	$1,177,962	162.4%

Results of Operations

On April 1, 1991, the Company opened its 44-bed addition to its Boulevard Manor Nursing Center located in Boynton Beach, Florida. On June 1, 1991, the Company opened the Renaissance, its newly constructed 120-bed facility in Naples, Florida. On March 11, 1992, the Company opened 13 new beds at its Boulevard Manor addition, bringing its total capacity to 167 beds. (The Boulevard Manor addition was constructed and decorated in anticipation of the eventual receipt of the additional 13-bed licensure, therefore, no material capital expenditures were incurred to bring these beds on-line.) The impact of the initial costs and expenses incurred in opening and operating the Renaissance and the Boulevard Manor addition have, as anticipated, negatively affected the Company's overall profitability and census for the quarter and nine months ended June 30, 1992. However, based upon the present rate of increase in occupancy levels, the Company anticipates that revenues from these facilities will continue to have a favorable offsetting affect on expenses.

On May 1, 1992, the Company sold its 76-Bed Phenix City Nursing Home in Phenix City, Alabama for approximately $1.3 million. As a consequence of this sale, the Company realized a pre-tax gain of approximately $793,000 which favorably affected the Company's overall profitability for the quarter and the nine months ended June 30, 1992. As previously reported, during November 1991, the Company exercised its option to purchase this facility. The transaction closed during February 1992. Prior to its purchase, Phenix City Nursing Home was accounted for as an operating lease. Phenix City Nursing Home was not a substantial producer of earnings for the Company and its location did not fit within the Company's present business plan for Alabama. (For a further discussion see "Financial Condition, Liquidity, and Capital Resources" in Item 2 of this Report.)

THREE MONTHS ENDED JUNE 30, 1992
COMPARED TO
THREE MONTHS ENDED JUNE 30, 1991

Headings refer to Line Items on the table on page 5.

Line 1 - Operating Revenues (net):

For the three months ended June 30, 1992, operating revenues (net) increased $3,176,000 (or 24.3%) as compared with the three months ended June 30, 1991. Operating revenues (net) is comprised of resident service income and other income, including interest. Resident service income is derived from charges for room (including rental income from The Hills), board, drugs, medical supplies, lab, x-ray and ancillary therapy services. Resident service income is affected by occupancy levels, room rates and patient mix.

Other income consists of services provided to patients such as laundry, beauty shop and vending machines and outpatient services such as meals-on-wheels. Other income also includes income from the Company's Management Service Contract and interest and dividend income, and a pre-tax gain of approximately $793,000 from the sale of the Phenix City Nursing Home in early May, 1992. The growth in resident service income in the third quarter of fiscal 1992 as compared to the prior year's third quarter is due to a substantial increase in the average daily Medicaid reimbursement rate for certain of the Company's facilities, the openings of the Renaissance and Boulevard Manor addition, the Company's receipt in the third quarter of fiscal 1992 of Medicare cost report retroactive settlements (including the receipt of both fiscal 1990 and 1991 adjustments), an increase in census in the Company's Texas facilities and inflationary increases in private and subsidized resident room rates. The increase in resident service income is also due to a 3.2% increase in total resident days. Greater ancillary therapy services income also contributed to the increase in Resident Service Income. Total resident census in the third quarter of fiscal 1992 was 86% as compared to 84.7% in the third quarter of fiscal 1991. The Company's private, Medicaid and Medicare census was 35.1%, 59.3% and 4.2%, respectively, for the third quarter of fiscal 1992 as compared to 36.4%, 59% and 3.2%, respectively, for the third quarter of fiscal 1991. As noted above, during fiscal 1991, the Company opened its 120-bed Renaissance facility and a 44-bed addition to its Boulevard Manor Nursing Center (with 13 more beds opened on March 11, 1992). With respect to the quarter ended June 30, 1992, these facilities added bed capacity of 8,500 days. Consequently, the fill-up of the Renaissance and the Boulevard addition is the primary cause for the overall increase in the percentage of resident census.

Resident service income for the fiscal quarter ended June 30, 1992 includes the effects of Alabama's new Medicaid reimbursement system discussed below.

Medicare cost findings and resident services covered by state subsidy programs billed at current rates are subject to audit and adjustment. The Company has made those adjustments to its resident service income for the quarter ended June 30, 1992 which it believes are sufficient to account for retroactive adjustments that may occur based upon final cost report settlements under the Medicare and state subsidy programs. Such adjustments are necessarily estimates and accordingly final adjustments, if any, may vary. Management believes that final adjustments, if any, will not have a significant effect on the Company's financial statements for the three months ended June 30, 1992.

As part of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90"), federal legislation has been enacted to prohibit the Medicaid reimbursability of state imposed provider-specific taxes and donations used as a mechanism for passing Medicaid reimbursement cost increases through to the federal government. Alabama currently has in place a provider-specific tax, which became effective on September 1, 1991. For a more detailed discussion of these matters see the discussion following the discussion comparing the nine months ended June 30, 1992 to the nine months ended June 30, 1991.

Line 2 - Operating Expenses - exclusive of depreciation, amortization and rent; Line 2a. Operating Wages; Line 2b. Food, Operating Supplies and Other Expenses; Line 2d. Ancillary Services:

For the three months ended June 30, 1992, operating costs and expenses - exclusive of depreciation, amortization and rent increased $1,607,000 (or 18.5%) as compared with the three months ended June 30, 1991. The principal component of this increase is operating wages, which increased by $603,000 primarily due to salary increases, the effects of the increases in the minimum wage and staffing additions made necessary by OBRA requirements, as well as to the opening of the Renaissance and Boulevard Manor addition.

The increase in food, operating supplies and other expenses is primarily due to the monthly payments required under Alabama's new Provider-Specific Tax, which amounted to approximately $226,000 for the three months ended June 30, 1992, the openings of the Renaissance and the Boulevard Manor addition and to inflationary cost increases.

The ancillary services expense for therapy, medical supplies, lab, drug, and physician services increased due to increased utilization of these services primarily with respect to Medicare usage.

Line 5 - General and Administrative; Line 5a. Administrative Salaries; Line 5d. Other:

General and administrative expenses increased $260,000 (or 8.9%) for the three months ended June 30, 1992 as compared with the same quarter a year ago, primarily due to increases in administrative salaries, and "other" expenses.

The increase in administrative salaries is due to new staffing positions and annual wage adjustments.

The increase in other expenses is primarily due to increases in premiums for property and general liability insurance coverage, which amounted to approximately $135,000 for the three months ended June 30, 1992.

IV. Net Income:

Net income for the quarter ended June 30, 1992 was $950,000 or $.18 per share as compared with Net Income of $123,000 or $.04 per share for the quarter ended June 30, 1991. Improved earnings for the fiscal 1992 quarter are primarily due to the amount and timing of the Company's receipt of Medicare cost report retroactive settlements, the sale of the Company's Phenix City Nursing Home and the particularly strong performance of certain facilities due to the continuing favorable state subsidy rate increase. The impact of effective cost controls, particularly in the Arizona region, including reduced reliance on temporary nursing personnel, also contributed to the increase in the Company's earnings.

NINE MONTHS ENDED JUNE 30, 1992
COMPARED TO
NINE MONTHS ENDED JUNE 30, 1991

Headings refer to Line Items on the table on page 5

Line 1 - Operating Revenues (net):

For the nine months ended June 30, 1992, operating revenues (net) increased $8,108,000 (or 21.1%) as compared with the nine months ended June 30, 1991. Operating revenues (net) is comprised of resident service income and other income, including interest. Resident service income is derived from charges for room (including rental income from The Hills), board, drugs, medical supplies, lab, x-ray and ancillary therapy services. Resident service income is affected by occupancy levels, room rates and patient mix.

Other income consists of services provided to patients such as laundry, beauty shop and vending machines and out-patient services such as meals-on-wheels. Other income also includes income from the Company's Management Service Contract, interest and dividend income, and the pre-tax gain of approximately $793,000 resulting from the sale of the Company's Phenix City Nursing Home. The increase in resident service income for the nine months ended June 30, 1992, as compared to the same period in the prior year, is due to a substantial increase in the average daily Medicaid reimbursement rate for certain of the Company's facilities, the openings of the Renaissance and Boulevard Manor addition, the Company's receipt in the third quarter of fiscal 1992 of Medicare cost report retroactive settlements (including the receipt of both fiscal 1990 and 1991 adjustments), and an increase in census in the Company's Texas facilities, as well as to inflationary increases in private and subsidized resident room rates. The increase in resident service income is also due to a 5% increase in total resident days (i.e., approximately 29,000 resident days, of which approximately 73% is attributable to the newly opened Renaissance facility and the Boulevard Manor addition). Greater ancillary therapy services income also contributed to the increase in resident service income. Total resident census in the first nine months of fiscal 1992 was 86.1% as compared to 86.4% in the first nine months of fiscal 1991. The Company's private, Medicaid and Medicare census was 34.6%, 60.2% and 3.8%, respectively, for the first nine months of fiscal 1992 as compared to 36.7%, 58.3%, and 3.7%, respectively, for the first nine months of fiscal 1991. With respect to the nine months ended June 30, 1992, the Renaissance and the Boulevard Manor addition added bed capacity of 38,898 days.

Resident service income for the nine months June 30, 1992 includes the effects of Alabama's new Medicaid reimbursement system discussed later in this Report.

Medicare cost findings and resident services covered by state subsidy programs billed at current rates are subject to audit and adjustment. The Company has made those adjustments to its resident service income for the nine months ended June 30, 1992 which it believes are sufficient to account for retroactive adjustments that may occur based upon final cost report settlements under the Medicare and state subsidy programs. Such adjustments are necessarily estimates and accordingly final adjustments, if any, may vary. Management believes that final adjustments, if any, will not have a significant effect on the Company's financial statements for the nine months ended June 30, 1992.

Line 2 - Operating Expenses - exclusive of depreciation, amortization and rent; Line 2a. Operating Wages; Line 2b. Food, Operating Supplies and Other Expenses; Line 2d. Ancillary Services:

For the nine months ended June 30, 1992, operating costs and expenses, exclusive of depreciation, amortization and rent increased $4,976,000 (or 19.8%) as compared with the nine months ended June 30, 1991. The principal component of this increase is operating wages, which increased by $2,339,000 primarily due to salary increases, the effects of the increases in the minimum wage and staffing additions made necessary by OBRA requirements, as well as to the opening of the Renaissance and Boulevard Manor addition.

The increase in food, operating supplies and other expenses is primarily due to the monthly payments required under Alabama's new Provider-Specific Tax, which amounted to approximately $678,000 for the nine months ended June 30, 1992, the openings of the Renaissance and the Boulevard Manor addition and to inflationary cost increases.

The ancillary services expense for therapy, medical supplies, lab, drug, and physician services increased due to increased utilization of these services primarily with respect to Medicare usage.

Line 3 - Depreciation and Amortization:

The increase in depreciation and amortization of $154,000 (or 11.1%) was caused primarily by the impact of the openings of the Renaissance and the Boulevard Manor addition.

Line 5 - General and Administrative; Line 5a. - Administrative Salaries; Line 5d. - Other:

General and administrative expenses increased $982,000 (or 11.6%) for the nine months ended June 30, 1992 as compared with the same period a year ago, primarily due to increases in administrative salaries and "other" expenses.

The increase in administrative salaries is due to staffing positions and annual wage adjustments.

The increase in other expenses is primarily due to increases in premiums for property and general liability insurance coverage, which amounted to approximately $408,000 for the nine months ended June 30, 1992.

Line 6 - Interest Expense:

Interest expense increased $60,000 (or 3.3%) due primarily to financing costs associated with the construction and furnishings of the Renaissance and the Boulevard Manor addition. (Interest associated with the construction financings was capitalized during the construction period.) (Excluding the impact of the interest expense associated with the new Florida facilities, interest expense decreased $393,000 (or 23%).) Interest expense has benefited by the effect of continuing pay-down of long-term debts and decreases in the prime rate.

IV. Net Income:

Net income for the nine months ended June 30, 1992 was $1,904,000 or $.36 per share as compared with Net Income of $726,000 or $.14 per share for the nine months ended June 30, 1991. Improved earnings for the nine months ended June 30, 1992 are primarily due to the amount and timing of the Company's receipt of Medicare cost report retroactive settlements, the sale of the Company's Phenix City Nursing Home, and the particularly strong performance of certain facilities due to the continuing favorable state subsidy rate increase. The impact of effective cost controls, particularly in the Arizona region, including reduced reliance on temporary nursing personnel, also contributed to the increase in the Company's earnings. These factors partially offset the negative impact on profitability brought about by the openings of the Renaissance and the Boulevard Manor addition. Net income also benefited from improved ancillary services income.

* * * * * * * * * * * * *

The Company's operations have been favorably affected due in part to an increase in subsidy patient rates. However the regulatory nature of the nursing home industry may restrict the Company's ability to raise room rates in the future. Further, there is a trend in the health care industry for subsidy payments to be established prospectively rather than retrospectively based on actual costs. While the Company believes that it is efficiently run so as to benefit from such a prospective system, there can be no assurance that such prospectively established rates will not be used as a policy tool to reduce health care costs by setting unrealistically low rates or that such rates will not otherwise be established in a fashion which will render it unprofitable to render services to subsidy patients. The ratio of private to subsidy patients may be affected by general economic conditions and other factors beyond the Company's control, resulting in a greater concentration of patients requiring subsidies from regulatory sources. Continued upward pressure on costs and expenses could adversely affect operating results in the future.

Presently, the Company has operations in Alabama, Arizona, Florida and Texas. Alabama and Florida currently have "Certificate of Need" programs under which the appropriate state regulatory body identifies the number and general location of future nursing home facilities. In 1982, the State of Arizona suspended its Certificate of Need program. There is no current Certificate of Need program in Texas. These regulatory programs generally had little effect on the Company's expansion in these areas because the thrust of its operation is to acquire, lease or manage existing facilities whose operations had not been maximized by prior management. Generally, however, the Certificate of Need programs also serve to limit new competition in order to assure the efficient operation of facilities through higher occupancy.

As noted above, in 1982 the State of Arizona suspended its Certificate of Need program. As a consequence of this suspension, commencing in mid-fiscal 1983 the Company began to feel the competitive effect of the opening of a number of new homes near its Arizona facilities. Beginning in the second half of fiscal 1986, the Company experienced substantially increased levels of competition in Arizona for subsidized and private pay residents and a greater shortage of experienced personnel, requiring it to have more expensive medical pool personnel. As indicated in the Company's Quarterly and Annual Reports, from mid-1986 through fiscal 1988 the Company's net income was significantly adversely affected by these conditions and the effect of inadequate reimbursement rates for subsidized residents. While the Company recorded significant gains in fiscal 1991, 1990 and 1989, as compared to fiscal 1988, due in part to improving its competitive position in Arizona, it expects the general competitive pressures to continue with resultant quarterly fluctuations in income.

As noted above, there is no current Certificate of Need program in Texas, where the Company has its Hilltop, Silver Creek, Alpine Terrace and Edgewater Care Center facilities. However, there is a moratorium on Medicaid participation by new facilities which effectively controls new entry. There can be no assurance that this moratorium will continue.

There can be no assurance that other states in which the Company does business will not abolish their own Certificate of Need program in order to reap short-term reductions in the reimbursement rates which they pay.

The Company is continuing to focus attention on its Texas operations in an effort to bring those operations into a stable profitable position. While still presenting challenges, there exist some indications that the region as a whole is responding favorably to measures taken to increase productivity. While there has been some modest improvement in the Texas census (for the three months ended June 30, 1992 as compared with the same period for the prior year), there continues to be low census in Texas due to capacity exceeding demand in the Kerrville area. With respect to the Company's operations over the last three fiscal years, continued low occupancy levels in Texas have had a significant adverse impact. Among the actions being taken by the Company to bring its Texas facilities up to the productivity levels of its other facilities are the continuation of a marketing and employee retention program and the establishment of medical specialization units. In addition, the Company has realigned its administration in that geographic area and continues to take steps to reduce expenses stemming from underutilization of facilities. It is the Company's hope that over time such measures will result in increasing productivity levels. There can be no assurance of that result.

During the latter part of fiscal 1991, the Company opened its newly constructed 120-bed facility in Naples, Florida, as well as a 44-bed addition to its Boulevard Manor facility in Boynton Beach, Florida. The Company has also received its license for and has opened 13 more beds at this addition. The Boulevard Manor addition was constructed in anticipation of the receipt of a Certificate of Need and license for these beds and, therefore, no material capital expenditures were necessary to bring these beds on-line. The Company selected Florida for this expansion because of its historic stability as a profit center for its operations. The Company anticipates that, over time, the expansion in Florida will contribute significantly to the Company's future growth and profits. (See also discussion under "Results of Operations" under this Item 2.)

The amended qualifications for participation in the Medicare and Medicaid program by nursing homes set forth under the Federal Omnibus Budget Reconciliation Act of 1987 ("OBRA-87") have resulted in increases in costs to the Company. OBRA-87 also requires that States provide Medicaid reimbursement sufficient to cover the costs of complying with amended qualifications for participation requirements. OBRA-90 requires that Medicaid reimbursement be sufficient to cover the costs required to attain or maintain each Medicaid resident's highest practicable physical, mental and psychosocial well-being. The Company anticipates that increased Medicaid revenues should offset the costs of OBRA-87 compliance. In addition to other new governing regulations, OBRA-87 directed that reimbursement no longer be available for the intermediate level of care effective October 1, 1990. The Company believes that its nursing homes meet the requirements for classification as "nursing facilities" under the federal Medicaid statutes and rules, as amended by OBRA-87. As a result, the elimination of the intermediate level of care has not had, nor does the Company expect that it will have, a material effect on the Company's operations.

Due to Alabama's new Medicaid reimbursement system which became effective on September 1, 1991, the Company's average daily reimbursement rate for subsidized residents in its Alabama facilities significantly increased. In order to continue to receive Medicaid reimbursement at the increased level, Alabama nursing facilities must establish that they have expended funds in complying with OBRA-87 mandates. Assuming the increased reimbursement can be maintained, revenue enhancements associated with federal matching to the Medicaid program are anticipated to closely approximate costs and expenses associated with OBRA-87 compliance requirements. The Company's Alabama facilities contribute significantly to the Company's earnings.

The State of Alabama enacted a provider-specific tax that became effective September 1, 1991. The tax assessment amounts to $999.96 per bed annually and is payable in monthly installments beginning October 10, 1991. For the Company's facilities in Alabama, the provider-specific tax amounts to $760,000 per annum. The purpose of the tax is to increase the State's contribution to the Medicaid program, entitling Alabama to an overall increase in funding through federal matching funds for the Medicaid program. The increased funding was provided to nursing homes for the stated purpose of enabling nursing homes to comply with the OBRA-87 increased staffing and other requirements for continued participation in the Medicaid and Medicare programs. Currently, for every dollar of provider tax contributed by the State to the Medicaid program, the federal government provides approximately three dollars in matching Medicaid funds.

The State of Florida, in a special legislative session, expanded the assessment charged to hospitals and ambulatory care centers to include nursing homes. Effective July 1, 1992, nursing homes are subject to a $1.50 assessment per patient day for all patients regardless of payment source. The assessment is intended and designed to boost the state's contribution to the Medicaid program and increase the federal matching dollars available to Florida facilities. In this way, Florida will avert a previously projected Medicaid cut.

As part of the Omnibus Budget Reconciliation Act of 1990 ("OBRA-90"), Congress enacted legislation prohibiting the reimbursability of state imposed provider taxes and donations used in many states as a mechanism for passing Medicaid reimbursement cost increases through to the federal government. OBRA-90 makes provider-specific taxes non-reimbursable for Medicaid purposes. Currently a number of states, including Florida and Alabama, impose a tax on nursing home operators participating in the Medicaid program. The provider-specific tax revenue generated is used by the state as an enhancement to its federally mandated and federally matched contribution to Medicaid payments. The net effect is increased Medicaid reimbursement to nursing homes at no additional cost to the state.

Regulations implementing the OBRA-90 provision and limiting the availability of federal matching funds for provider-specific taxes, proposed by the Health Care Financing Administration ("HCFA") on September 12, 1991, generated heated discussion among states, providers and the federal government. A number of legislative responses, remedies and moratoria were proposed by Congress and the affected states. As drafted, the regulations prohibited federal matching of, or reimbursement for, any provider-specific taxes. On December 12, 1991, President Bush signed into law The Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 (the "Medicaid Contribution Act") which directed HCFA to withdraw its proposed regulations and prohibited the issuance of new regulations before September 30, 1992. The Medicaid Contribution Act became effective on January 1, 1992 and effectively grandfathered many such state provider-specific tax/donation programs already in place, including the Alabama program, at least through September 30, 1992. The Medicaid

Contribution Act also established a framework for determining which tax/donation programs are acceptable as a source of a state's expenditures for which federal matching funds are available.

On April 30, 1992, the Alabama Legislature passed legislation designed to conform Alabama's provider-specific tax program to the mandates of the Medicaid Contribution Act. The Governor of Alabama has signed the legislation into law which carries an effective date of October 1,1992. The legislation on its face does not affect either the amount of the tax or the reimbursement for the Company's Alabama facilities.

In response to the Medicaid Contribution Act, HCFA withdrew its proposed regulations effective December 6, 1991. The HCFA regulations which were withdrawn, would have reduced overall nursing home reimbursement in the states that rely upon provider-specific taxes for all or a portion of their state contribution to the Medicaid program. The Company cannot predict the likelihood of re-promulgation or implementation of the HCFA proposed rules implementing the Medicaid Contribution Act, nor the exact response to be taken by any state.

The Company believes that medical specialization is an important trend in long-term care. The Company believes that programs offering specialized care should increase census with higher rates of reimbursement. Currently, the Company operates a specialized unit for treatment of Alzheimer's disease in three separate facilities located in Alabama, Arizona and Texas.

As a consequence of changing conditions in Arizona, the impact of the Company's 1987 Texas acquisitions (i.e., the acquisition of Alpine Terrace, Edgewater Care Center, Leslie Place and The Hills,) and the expansion in Florida, and recent sales of facilities (see "Financial Condition, Liquidity and Capital Resources), the Company continues to expect that there will be quarterly variations in revenue and income.

Overall, the Company believes that future growth in its earnings will depend upon increasing the variety and kinds of services which it provides, increased occupancy and room rates, and the acquisition of additional facilities which provide various levels of convalescent and geriatric care. In particular the Company's future growth and profit is clearly tied to improving its Texas census, increasing the number of residents at the Company's 120-bed Renaissance facility and at the 57-bed addition to its Boulevard Manor facility, successfully maintaining its competitive position in Arizona, and attracting and retaining required nursing personnel so to reduce the need to utilize nursing pools.

Financial Condition, Liquidity and Capital Resources

The Company's working capital increased by $595,000 at June 30, 1992 as compared to September 30, 1991. The Company's fixed assets increased by $1,187,000 at June 30, 1992, as compared to September 30, 1991, primarily due to the acquisition of its Phenix City Nursing Home at a purchase price of $418,000 with the remainder due to normal replacements for equipment, furniture and fixtures at the Company's facilities.

The increase in prepaid expense of $328,000 at June 30, 1992, as compared to September 30, 1991, resulted from the timing of payments for insurance coverage.

The increase in Other Noncurrent Assets at June 30, 1992, as compared to September 30, 1991, is primarily due to the proceeds from the sale of Phenix City Nursing Home in the amount of $994,000. This amount was held in escrow and was applied to the tax-deferred like-kind exchange for the purchase of Fairview Nursing Home.

The increase in Other Current liabilities at June 30, 1992 reflects Medicare and state subsidy program adjustments. Such adjustments are necessarily estimates and accordingly final adjustments, if any, may vary. Management believes that final adjustments, if any, will not have a significant effect on the Company's financial statements for the three months and nine months ended June 30, 1992.

The increase in Federal and state income taxes payable at June 30, 1992, as compared to September 30, 1991, is attributable to the increase in the provision for income taxes currently payable and the timing of payments and receipts relating to income tax obligations.

The Company's capital resources are derived principally from operating activities. Net cash provided by operating activities was $3,704,000 for the nine months ended June 30, 1992 as compared to $2,910,000 for the nine months ended June 30, 1991. The Company has available lines of credit of $1,500,000 pursuant to short-term borrowing arrangements. The Company has utilized approximately $931,000 of its available credit lines for various equipment leases. Because the Company generally has no need for seasonal lines and short-term borrowings for operational purposes (see discussion below), the Company believes that the amount available under its lines of credit is sufficient for its purposes. Long term cash generation has not historically presented any difficulties for the Company. As noted, the Company's ability to generate cash on a long term basis is tied to its ability to generate earnings from operations. In addition, the Company utilizes long term bank loans secured by mortgages and has, in the past, utilized long term financing through industrial development bonds.

As previously reported, during November 1991, the Company exercised its option to purchase the 76-bed Phenix City Nursing Home, located in Phenix City, Alabama, for the sum of $418,000. The transaction closed during the second quarter of fiscal 1992. Prior to its purchase, the Phenix City Nursing Home had been accounted for as an operating lease. On May 1, 1992, the Company sold this Nursing Home for approximately $1.3 million. As more fully discussed under item 5 of this Report, effective July 1, 1992 the company sold its Southland Nursing Home in Marion, Alabama for approximately $1.2 million.

On August 5, 1992 the Company exercised its option to purchase the 165-bed Fairview Nursing Home in Birmingham, Alabama, a facility which Vari-Care had leased and operated for 20 years. The exercise price was $1,650,000. The purchase of the Fairview facility involved a tax-deferred like-kind exchange of the Phenix City and Southland Nursing Homes, which as previously described in this Report, the Company sold in May and July 1992, respectively. As a result of this exchange the Company expects to realize an after-tax gain of approximately $883,000 and a tax deferral on the Phenix City and Southland sale of approximately $591,000.

The Company has not yet adopted Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109, which currently must be adopted by the Company in the 1994 fiscal year, requires that a deferred tax liability or asset be adjusted in the period of enactment for the effect of changes in tax laws or rates. The future adoption of SFAS 109 will not have a material effect on the Company's financial condition.

Statement of Financial Accounting Standard No. 106 "Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) was issued in December, 1990 and requires adoption for fiscal years beginning after December 15, 1992. SFAS 106 requires accrual accounting by employers for postretirement benefits other than pensions by reflecting in expense currently earned benefits. The Company currently has no postretirement benefit plans and, therefore, believes that SFAS 106 will have no effect on its financial condition or results of operations.

The Company's business does not require carrying inventories for any appreciable period of time. The Company carries food, maintenance and nursing supply items which are utilized and replaced on a weekly basis. Resident receipts are obtained on a monthly basis, in advance for private residents and after the end of the month for subsidy residents. In addition, the Company receives annual retroactive subsidy adjustments based upon annual cost reports. Accordingly, the Company generally has no need for seasonal lines and short-term borrowings for operational purposes. Occasionally, the Company may be required to obtain short-term lines of credit to bridge anticipated delays in payments from subsidy sources and has also used short-term borrowings to assist in acquisitions, pending placement of long-term financing.

Generally, the Company's operations are highly leveraged, its borrowings are long-term, either on fixed or floating payment schedules, and are reflected in the monthly resident rates established by the Company and subsidy sources. The Company does not believe that the establishment of a prospective rate system, in states that do not presently have such a system and in which the Company operates (i.e., Arizona), will cause its present highly leveraged position to be a disadvantage.

No special factors occurred during the quarter ended June 30, 1992 which deviated from the general statements set forth above concerning liquidity and capital resources.

PART II - OTHER INFORMATION

Item 5. Other Information

As previously reported, during November 1991, the Company exercised its option to purchase the 76-bed Phenix City Nursing Home, located in Phenix City, Alabama, for the sum of $418,000. The transaction closed during the second quarter of fiscal 1992. Prior to its purchase, the Phenix City Nursing Home had been accounted for as an operating lease. On May 1, 1992, the Company sold this facility for approximately $1.3 million. Effective July 1, 1992 the Company sold its Southland Nursing Home in Marion, Alabama for approximately $1.2 million. Phenix City and Southland were not substantial producers of earnings for the Company and their locations did not fit within the Company's present business plan for Alabama.

On August 5, 1992 the Company exercised its option to purchase the 165-bed Fairview Nursing Home in Birmingham, Alabama, a facility which Vari-Care had leased and operated for 20 years. The exercise price was $1,650,000. The purchase of the Fairview facility involved a tax-deferred like kind exchange of the Phenix City and Southland Nursing Homes, which as previously described in this Report, the Company sold in May and July, 1992, respectively. As a result of this exchange, the Company expects to realize an after-tax gain of approximately $883,000 and a tax deferral on the Phenix City and Southland sale of approximately $591,000.

Item 6. Exhibits and Reports on Form 8-K.

(a) See Index to Exhibits.

(b) There were no reports on Form 8-K filed during the quarter ended June 30, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

VARI-CARE, INC.
(Registrant)

Dated: August 13, 1992 By: s/ Robert H. Hurlbut
Robert H. Hurlbut, President

Dated: August 13, 1992 By: s/ William F. Doud
William F. Doud,
Executive Vice President
Principal Financial Officer

INDEX TO EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession.

Not Applicable.

(4) Instruments defining the rights of security holders, including indentures.

Exhibit 4(a) to the Company's Quarterly Report of Form 10-Q for the quarter ended June 30, 1987 is incorporated herein by reference with respect to the Restated Certificate of Incorporation of the Company.

Exhibit 4(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1988 is incorporated herein by reference with respect to the By-Laws of the Company.

Extension Agreement, dated as of March 8, 1991, between the Company and SouthTrust Bank of Alabama, National Association, modifying the Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987 (as previously modified) pertaining to the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 4(a) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991.

Extension and Modification Agreement between the Company and SouthTrust Bank of Alabama, National Association, dated as of April 22, 1991, modifying the Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987 (as previously modified) pertaining to the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 4(b) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1991.

Construction Loan Agreement, dated as of January 29, 1990, between the Company and SouthTrust Bank of Alabama, National Association ("SouthTrust Bank"), Note in the amount of $5,871,000 dated January 29, 1990, executed and delivered by the Company payable to SouthTrust Bank, and Mortgage and Security Agreement, dated as of January 29, 1990, between the Company and SouthTrust Bank pertaining to the "Renaissance" is incorporated herein by reference to Exhibit 4(a) of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1989.

Extension and Modification Agreement between the Company and SouthTrust Bank of Alabama, National Association, effective as of March 6, 1988, modifying the Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987 pertaining to the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 4(b) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1988.

Deed of Trust, Security Agreement and Financing Statement dated May 8, 1987, executed and delivered by the Company as security for a Promissory Note payable to SouthTrust Bank of Alabama, N.A. in connection with the 1987 acquisition of facilities in Kerrville, Texas is incorporated herein by reference to Exhibit 2(e) to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1987.

(11) Statement re computation of per share earnings.

Computation of per share earnings is included herein as Exhibit 11 at page 28 of this Report.

(15) Letter re unaudited interim financial information.

Not Applicable.

(18) Letter re change in accounting principles.

Not Applicable.

(19) Previously unfiled documents.

None.

(20) Report furnished to security holders.

None.

(23) Published report regarding matters submitted to vote of security holders.

None.

(24) Consents of experts and counsel.

Not Applicable.

(25) Power of attorney.

Not Applicable.

(28) Additional exhibits.

Asset Purchase Agreement dated April 13, 1992 between Vari-Care, Inc. and Phenix City Nursing Home is included herein as Exhibit 28.1 at page 29 of this Report.

Asset Purchase Agreement dated June 4,1992 between Vari-Care, Inc. and Southland Nursing Home is included herein as Exhibit 28.2 at page 44 of this Report.

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended February 29, 1992

Commission File No. 33-23884-LA

THE WESTWIND GROUP, INC.
(Exact name of Registrant as specified in its charter)

Incorporated under the laws of
the State of Delaware
(State or other jurisdiction of
incorporation of organization)

87-0415594
(I.R.S. Employer
Identification Number)

1748 Westwood Blvd.
Los Angeles, CA 90024
(Address of principal executive offices)

Registrant's telephone no., including area code: (310) 470-6949

No Change
Former name, former address, and former fiscal year, if changed since last report.

Common Stock outstanding at February 29, 1992 - 7,422,768 shares of $.004 par value Common Stock.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____.

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PART I - ITEM I

FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of the Company, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the financial position of the Company as of February 29, 1992, have been made. The result of operations for such interim period is not necessarily indicative of the results to be expected for the entire year.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should assist in an understanding of the Company's financial position at February 29, 1992, the end of the second quarter of its fiscal year, as compared to the same quarter for the last fiscal year. The financial statements and the notes attached thereto should be referred to in connection with this discussion.

The Company is engaged in the business of financing, producing and distributing quality, lower and medium budget motion pictures. The Company's motion pictures are intended to be distributed for exhibition in domestic and foreign theater markets and for subsequent release in other markets such as home video, pay-per-view, pay television and free television. Westwind Productions, Inc., a wholly-owned subsidiary of the Company is the Company's production entity. Westwind Releasing Corp., another wholly-owned subsidiary of the Company is the Company's distribution division.

Liquidity and Capital Resources.

As of February 29, 1992, the Company's cash totalled $353,651 as compared to $318,831 at August 31, 1991. During the same period, current assets increased to $1,929,828 from $1,553,008. Total assets increased to $1,999,667 from $1,604,190 as of August

31, 1991. The increase in total assets was primarily the result of an increase in accounts receivable.

Total and current liabilities increased to $842,683 as of February 29, 1992, from $675,140 at August 31, 1991. The increase in current liabilities was the result of an increase in advances from film distribution.

Results of Operations

During the quarter ending February 29, 1992, the Company continued to engage in a variety of film activity. Such activity includes but is not limited to the following:

"Hit List" is currently in pre-production and will begin principal photography in May or June, 1992. The film is a co-production between the Company and Showtime Networks, Inc. The Company expects the film to be broadcasted as a Showtime premiere.

"The Neighbor" is currently in pre-production and will begin principal photography in approximately June, 1992. The film is a co-production between the Company and Allegro films, a Canadian company, and will be filmed in Montreal, Canada.

"Bounty Tracker" starring Lorenzo Lamas ("Falcon Crest") began pre-production in February, 1992 and will begin principal photography in April, 1992. The film is a co-production between the Company and Image Organization of Los Angeles, California. It will be filmed in Los Angeles, California.

The Company has entered into a contract with MCA Television Entertainment to develope a film tentatively entitled "Close to the Edge." The script is currently being revised and pre-production is expected to begin within the next two quarters.

The Company has elected to dissolve the partnerships for "The Banker" (Baker Partnership) and "Party Line" (P.L. Partnership) as of December 31, 1991. Final tax returns have been prepared and will be filed.

"Mission of Justice" starring Jeff Wincott ("Night Heat" and Martial Law II: Undercover") and Brigitte Nielsen ("Rocky IV", "Beverly Hills Cop II") is currently in post-production. Principal photography of the film was completed in January, 1992. The film is a co-production between the Company and Image Organization of Los Angeles. It was filmed on location in Los Angeles, California.

"Martial Law II: Undercover" starring Jeff Wincott, Cynthia Rothrock ("China O'Brien") and Billy Drago ("The Untouchables") was delivered to MCA Home Video for release of the film in the United States' video market. Image Organization is the agent for foreign sales. Revenue has been received in connection with this film and the company expects to continue to receive additional revenue during the next two quarters. The film is a co-production between the Company and Image Organization of Los Angeles, California.

"Martial Law" starring Chad McQueen ("Karate Kid") and David Carradine ("Kung Fu") was released on videocassette in May 1991. In October 1991 the film was shown on pay-per-view stations. The film aired on Cinemax in February 1992. "Martial Law" was a co-production between the Company and Lance Entertainment of Los Angeles, California. Revenue has been received in connection with this film and the Company expects to continue to receive additional revenue during the next quarter.

In addition to the above film activity the Company was retained as a sales agent to represent the following films in the U.S. market for foreign producers:

"Deadly Surveillance" starring Michael Ironside and Christopher Bondy was produced by Allegro Films on Montreal, Canada. The Company was retained to distribute the film in the U.S. market. The Company entered into contracts with Republic Pictures for the U.S. videocassette release of the film and with Showtime networks for the U.S. pay cable release. The Company will receive a commission percentage of the gross U.S. receipts.

"Something About Love" starring Jan Rubes was produced by Allegro Film of Montreal, Canada. The Company was retained to distribute the film in the U.S. market. The Company entered into an agreement with Home Box Office for the U.S. pay cable release of the film.

The Company is continuing talks and development on further productions.

Revenue and Expenses.

The Company had total revenue of $667,966 for the three month period ending February 29, 1992, compared to $430,209 for the three month period ending February 28, 1991. For the six months ended February 29, 1992, the Company had total revenue of $1,439,575, as compared to $493,770 for the six months ended February 28, 1991.

Operating expenses decreased to $93,930 for the three month period ending February 29, 1992, from $132,359 for the three month period ending February 28, 1992. For the six months ended February 29, 1992, the Company had operating expenses of $201,414, as compared to $220,456 for the six months ended February 28, 1991.

The Company had a net income of $38,967 for the three month period ending February 29, 1992, as compared to a net income of $69,401 for the three month period ending February 28, 1991. For the six months ended February 29, 1992, the Company has a net income of $72,028, as compared to $35,826 for the six months ended February 28, 1991.

The Company's revenues from operations, and from partnership distributions as well as income and operating expenses is subject to increase or decrease on a quarterly basis depending on the amount of film activity engaged in a particular quarter and the timing of receipts from licenses and from distribution agreements

PART II - OTHER INFORMATION

Item 1. Legal Proceedings. To the best knowledge of the Company, it is not a party to any pending or threatened litigation or proceeding material to the Company.

Item 2. Changes in the Rights of the Company's Security Holders. None.

Item 3. Defaults by the Company on its Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders. None

Item 5. Other Information. None.

Item 6(a). Exhibits. None.

Item 6(b). Reports on Form 8-K. None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: April 10, 1992

THE WESTWIND GROUP, INC.

By William Webb

William C. Webb

President/Director

THE WESTWIND GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	February 29, 1992	August 31, 1991
CURRENT ASSETS:		
Cash and cash equivalents	$ 353,651	$318,831
Accounts receivable, net	418,190	254,746
Advances on distributions	-	68,510
Film inventory	1,157,987	906,935
Deferred income taxes	-	3,986
Total Current Assets	1,929,828	1,553,008
PROPERTY AND EQUIPMENT, net	4,350	5,540
OTHER ASSETS:	65,489	45,642
	$ 1,999,667	$1,604,190

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 29, 1992	August 31, 1991
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 78,372	$70,845
Taxes payable	51,074	93,306
Deferred income taxes	1,866	-
Deferred revenues - advances from distributor	711,371	510,989
Total Current Liabilities	842,683	675,140
MINORITY INTEREST:	427,391	271,485
STOCKHOLDERS' EQUITY:		
Preferred stock	-	-
Common stock	29,691	29,691
Additional paid-in capital	124,098	124,098
Retained earnings	575,804	503,776
Total Stockholders' Equity	729,593	657,565
	$ 1,999,667	$1,604,190

Note: The balance sheet at August 31, 1991 has been taken from the audited financial statements at that date and condensed.

The accompanying notes are an integral part of these consolidated financial statements.

THE WESTWIND GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended		For the Six Months Ended	
	February 29, 1992	February 28, 1991	February 29, 1992	February 28, 1991
REVENUE	$667,966	$430,209	$1,439,575	$493,770
PRODUCTION COSTS	414,513	182,934	956,439	222,336
GROSS PROFIT	253,453	247,275	483,136	271,434
OPERATING EXPENSE:				
General and administrative	80,485	110,608	185,403	188,507
Professional fees	13,445	21,751	16,011	31,949
Total Operating Expense	93,930	132,359	201,414	220,456
INCOME FROM OPERATIONS	159,523	114,916	281,722	50,978
OTHER INCOME (EXPENSE):				
Loss on dissolution of partnerships	(63,586)	-	(63,586)	-
Interest income	1,936	2,901	5,648	3,106
Interest expense	-	(653)	-	(1,103)
Total Other Income (Expense)	(61,650)	2,248	(57,938)	2,003
INCOME BEFORE MINORITY INTEREST AND PROVISION FOR INCOME TAXES	97,873	117,164	223,784	52,981
MINORITY INTEREST IN OPERATIONS OF PARTNERSHIPS	30,094	1,038	101,256	(7,187)
INCOME BEFORE PROVISION FOR INCOME TAXES	67,779	116,126	122,528	60,168
PROVISION FOR INCOME TAXES	28,812	46,725	50,500	24,342
NET INCOME	$ 38,967	$ 69,401	$ 72,028	$ 35,826
NET INCOME PER COMMON SHARE	$ .005	$ .014	$ .010	$ .007
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	7,422,768	5,012,768	7,422,768	5,012,768

The accompanying notes are an integral part of these consolidated financial statements.

THE WESTWIND GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

	For the Six Months Ended	
	February 29, 1992	February 28, 1991
Cash Flows From (To) Operating Activities:		
Net income	$ 72,028	$35,826
Adjustments to reconcile net income to cash provided (used) by operations:		
Depreciation and amortization	1,190	1,190
Minority interests in operations of partnerships	101,256	(7,187)
Loss on dissolution of partnerships	63,586	-
Write off of film script inventory	-	5,311
Provision for allowance for doubtful accounts	37,400	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(200,844)	657,986
(Increase) decrease in advances on distributions	68,510	(96,204)
(Increase) decrease in film inventory	(251,052)	26,191
Increase (decrease) in accounts payable and accrued expenses	7,527	94,701
Increase (decrease) in taxes payable	(42,232)	94,476
Increase (decrease) in deferred income taxes	5,852	(72,133)
Total Adjustments	(208,807)	704,331
Net Cash Provided (Used) by Operating Activities	(136,779)	740,157
Cash Flows From (To) Investing Activities:		
Payments for film script inventory	(19,847)	(9,875)
Distributions to limited partners	(424,856)	(343,584)
Contributions from limited partners	415,920	8,200
Net Cash From (To) Investing Activities	(28,783)	(345,259)
Cash Flows From (To) Financing Activities:		
Payments for note payable	-	(22,000)
Payments for payable to related party	-	(25,562)
Proceeds from advances from distributor	640,784	12,000
Payments for advances from distributor	(440,402)	(149,423)
Net Cash From (To) Financing Activities	200,382	(184,985)

(*Continued*)

THE WESTWIND GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[*Continued*]

Increase (Decrease) in Cash and Cash Equivalents

	For the Six Months Ended	
	February 29, 1992	February 28, 1991
Net Increase in Cash and Cash Equivalents	34,820	209,913
Cash and Cash Equivalents at Beginning of Year	318,831	8,760
Cash and Cash Equivalents at End of Year	$ 353,651	$ 218,673

Supplemental Disclosure of Cash Flow Information:

Cash paid during the period for:		
Interest	$ -	$ 1,103
Income taxes	$ 88,960	$ 2,118

Supplemental Schedule of Noncash Investing and Financing Activities:

For the six months ended February 29, 1992:

During the six months ended February 29, 1992, the Company dissolved certain partnerships and recorded a loss of $63,586 on its investment.

For the six months ended February 28, 1991:

During the six months ended February 28, 1991, the Company transferred film inventory of $17,475 to advances on distributions.

The Company wrote off $5,311 of certain film script inventory costs.

The accompanying notes are an integral part of these consolidated financial statements.

THE WESTWIND GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which included only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in the accompanying interim financial statements. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's August 31, 1991 audited financial statements. The results of operations for the periods ended February 29, 1992 and February 28, 1991 are not necessarily indicative of the operating results for the full year.

NOTE 2 – LIMITED PARTNERSHIPS

The Company forms limited partnerships to finance the production of its feature films. The Company serves as the general partner and has ownership, operating, and financial control of the limited partnerships. Limited partnership agreements generally limit cash distributions to the Company until limited partners' original investments are returned plus interest at a predetermined rate. Profits are allocated according to partnership agreements with the Company's interest ranging from 72.5% to 40.6%.

During the six months ended February 29, 1992, the Company formed a limited partnership under the terms stated above. The partnership is included in the consolidated financial statements at February 29, 1992.

During the six months ended February 29, 1992, the Company and limited partners agreed to dissolve certain older partnerships in which the Company acts as general partner. The Company recorded a loss on the dissolution of $63,586.

THE WESTWIND GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – COMMITMENTS AND CONTINGENCIES

Development Agreements - The Company enters into development agreements as a means to obtain story rights for feature films. Developers typically are entitled to a percentage of the net profits of the Company's general partnership interest in the film. Amounts paid to developers for the six months ended February 29, 1992 and February 28, 1991 were $113,747 and $138,456, respectively.

Distribution Agreements - The Company has entered into film distribution agreements for foreign markets as a means of financing production costs. These foreign distributor agreements require an up front advance which is repaid by the Company at prime plus 2% from the proceeds of the film. The foreign distributor collects revenues from sublicensees and after withholding the funds advanced, expenses incurred and a distribution fee of approximately 15% to 25% of gross revenues, forwards the remainder to the Company. Advances are classified as deferred revenues under current liabilities and together with accrued interest totaled $711,371 and $510,989 at February 29, 1992 and August 31, 1991, respectively.

The Company also enters into various other foreign and domestic distribution and licensing agreements for its films as a means to exhibit its films to the public. Distributors typically receive 12.5% to 25% of gross revenues as a distribution fee after predetermined minimum revenues are received by the Company and are entitled to be reimbursed for expenses incurred from the proceeds of the film.

The Company as a Distributor - The Company enters into various agreements to produce, assist in production and distribute films for which it does not own the story rights. These agreements typically provide for the Company to be compensated for its roll as producer, entitle the Company to receive a percentage revenue in gross profits of the film and occasionally require the Company to advance funds to meet production costs. The Company had advanced $0 and $68,510 as of February 29, 1992 and August 31, 1991, respectively, under these agreements. These advances are to be repaid from the gross revenues of the film.

When the Company acts as a distributor for films to which it does not own the story rights, it will generally arrange license or distribution agreements as discussed above. At February 29, 1992 and August 31, 1991, the Company has jointly guaranteed the payment of up to $300,000 Canadian dollars to a producer. Such payments are to be from the distributions of a film.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – COMMITMENTS AND CONTINGENCIES [*Continued*]

Other - The Company has a continuing obligation to certain writers and actors to pay profit participation amounts ranging from 1 to 7.5 percent based on a predetermined level of income and distributions received by the Company. The Company is also obligated to pay certain actors and writers amounts ranging from $6,000 to $45,000 when the Company is considered to be in profit. The Company has recorded $6,619 and $36,250 in profit participation payments for the six months ended February 29, 1992 and February 28, 1991, respectively.

NOTE 4 – RELATED PARTY TRANSACTIONS

During the six months ended February 28, 1991, the Company paid $25,562 to certain stockholders and officers of the Company for outstanding obligations. The Company has had no such transactions since February 28, 1991.

NOTE 5 – AGREEMENTS

The Company has entered into an agreement with an entity for assistance in finding prospective sources of financing. The Company has agreed to pay the entity five percent of any amounts generated in a financing arrangement.

NOTE 6 – GAIN CONTINGENCY

The Company has filed suit for $133,477 against a company, which had been contracted to distribute a film, for breach of a home video distribution agreement. The suit is based on a refusal to pay the full amount of the minimum guarantee, failure to render an accounting of sales and failure to pay royalties. In November 1990 the Company received a judgment against the distributor for $133,477, however, the distributor was forced into bankruptcy by its creditors before payment was made. Due to the uncertainty regarding collection of the judgment, no amounts have been recorded on the accompanying financial statements in relation to this judgment.

THE WESTWIND GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 — ECONOMIC DEPENDENCY

The Company receives a substantial portion of its revenue from a foreign sales agent based in Los Angeles who collects on behalf of the Company from numerous customers on a world-wide basis. These revenues relate to other revenues as follows:

	For The Six Months Ended	
	February 29, 1992	February 28, 1991
Foreign Sales Agent	$ 854,388	$ 26,836
Domestic Customers	585,000	418,495
Other	187	48,439
Total Film Revenues	$ 1,439,575	$ 493,770